

FAR EASTERN ECONOMIC REVIEW

Vol. III.

Hongkong, August 13, 1947.

No. 14

CONTENTS:—

America in China.
Discrimination and Dissatisfaction.
Prospects of British Export Industries.
Hong Kong Shipping Report.
Hong Kong Aviation Report.
Aviation Reports.

Mining of Wolfram and the HK Market.
Preparation for Trade with Korea.
Resumption of Trading with Korea.
Commercial Reports.
Exchange & Financial Markets.
Hong Kong Stock & Share Market.

The Bankrupt State of Local Finance in China.
Review of the Economy of Siam.
Constitutional Position in Malaya.
Far Eastern Economic Reports.
N.E.I. Production, Trade & Industry.

AMERICA IN CHINA

The antagonism between the United States and the Soviet Union overshadows the life of all nations in a world which has reluctantly come to understand the full meaning of Two Worlds in a total war. All political actions, economic plans and international conferences assume new and sinister significance when bearing in mind the fateful design of the human drama which is slowly unfolding.

Against this background the scene in China must be reviewed. The United States Government counts China into her sphere and tries to secure this area with all means short of war but still dangerously near war operations. It does not matter whether the present Chinese Government is autocratic or even tyrannical; the Spain of Franco has drawn very close to the United States since it is now the bond of common antagonism which unites.

The policy of the U.S. Government vis-a-vis China is determined by the world political tension and the harder it grows elsewhere the deeper gets America embroiled in the Far East. Lack of understanding and cooperation between the USA and the USSR is now patent and the most optimistic view which can be taken as regards the present situation is that the outbreak of the catastrophe appears still far off.

Meanwhile, ramparts, bulwarks and bastions are built up. The latent and world wide conflict has flared up in several parts of Europe and Asia into bitter and prolonged violence. The similarity between the Greek and Chinese civil wars is impressive; the immensely larger scale and geographic nearness of the tragedy in China occupies our minds often to the exclusion of other no less disastrous events.

In its efforts to find the most efficacious and least provocative form for the

containment of Communists in China, the U.S. Government has dispatched General Wedemeyer and a large staff on a mission which is officially described as engaged in fact finding but actually is to draw up plans for American defensive (or as might be termed by less charitable observers, preventive or offensive) measures in China. Fully appraised of the undemocratic nature of the Chinese Government, the ever widening extent of graft and moral decay, the strong feelings and protests of American business interests, and the general economic deterioration in the civil war ridden country, the policy of the U.S. Government cannot be influenced by such considerations since it is not China which is to be helped but the USSR which is to be contained.

The mission of Gen. Wedemeyer, therefore, is a strategic one, and quite properly a general was selected by the White House. That fact-finding was given as the official explanation for the mission's purpose in China must be taken with the proverbial grain of diplomatic salt. While the intentions are obvious and the principles of strategy have been laid down, the immediate approach has to be adjusted to the changing aspects in a fluctuating Chinese civil war and civil disobedience scene. The degree of real authority exercised by the Government in Nanking may, however, merit close study and such findings of unpleasant facts will undoubtedly be incorporated into the final report and will influence the recommendations of the Wedemeyer mission. Central control in China is even tenuous in those areas which are supposedly loyal to the Kuomintang Government; the fact is that many provincial governments, district chiefs, secret societies enjoy a high degree of autonomy which Nanking has not been able to break. Popular support for the Kuomintang is weak and if it comes to the odious question of prosecution of civil war operations it appears that almost all Chinese are definitely opposed to it.

DISCRIMINATION AND DISSATISFACTION

Obviously misunderstanding the character and determining motives of the so-called fact finding mission led by Gen. Wedemeyer, American business men have contributed to the flood of reports and statements which came down on the American general after his arrival in China almost three weeks ago. Foreign business in China is utterly dissatisfied, disillusioned and frustrated; but so is Chinese free enterprise with the exclusion of the great family trusts and Kuomintang monopolies. The complaints contained in the reports of American business executives are fully corroborated and strongly emphasised by Chinese traders. The stifling and choking competition of Chinese Government-in-business and the progressive aggrandizements of the powerful family combines must necessarily lead to the emaciation and eventual extinction of free enterprise in China.

All control measures devised by the Chinese Government in respect of import restrictions and surrender of foreign exchange have resulted on the one hand in the reduction of private trade, mass liquidation of commercial companies, unprofitable operation of a great many foreign and Chinese firms, many of whom suspended business for the time being, while on the other hand the renowned family trusts of China and Government monopolies took over the bulk of China's commerce. Foreign merchants charge discrimination by the Chinese Government against their interests but the fact is that, while undoubtedly there is anti-foreign feeling all too blatant in China and discrimination against foreign business is often indulged in, the Chinese trader finds himself in the same leaky boat with his foreign colleague.

American business men wanted to impress previously on the State and

PROSPECTS OF BRITISH EXPORT INDUSTRIES

(By A London Correspondent)

It appears now that world production, and the tremendous output drive in Britain in particular, already are beginning to overtake demand after the pent-up hunger for goods which followed World War II. Britain is fully preparing to meet con-

ditions of sterner competition when these conditions of a buyers market develop.

Commerce Departments, the Treasury, the Export-Import Bank, in fact on most government organisations and influential bodies in the States, the intolerable conditions created in post-war China for which, with more or less justification, the Chinese central authorities were held responsible.

In their various protests the suggestion, or even the demand, was reiterated that American assistance in one form or the other should be conditioned on a relaxation of commercial and financial restrictions in China, the re-establishment of competitive free enterprise, the abolition of monopolies and privileges, bestowed by the Kuomintang on the ruling families.

Some protests as received in Washington were so frank that it hurt but the truth, long concealed during the years of comradeship-in-arms, eventually came out, shocked the good American citizen but did not change the policy of Washington since it is developments in the Soviet Union rather than in China which determine the course of diplomatic or military procedure.

As far as trade is directly concerned the complaints of American business men in China centre around the following points:—(1) Import permits are unfairly issued, family trusts and privileged Chinese companies obtain most of import licences; thus foreign firms lose not only business in China but also their clients abroad. (2) Exports are virtually impossible for legitimate traders on account of the fixed foreign exchange rate while privileged Chinese companies and the Government monopolies can engage in any form of commerce which includes the non-surrender of export bills. (3) Government monopolies are increasingly tightening their hold on the collection of native produce, selling it abroad directly, and purchasing abroad any commodities, including such which are prohibited items for importation into China; this development tends to freeze out foreign business altogether. (4) Since large-scale smuggling or unrecorded trading can only be engaged in by influential Chinese groups, it is these organisations—directly or indirectly—which do an increasing percentage of China's foreign business. Chinese family trusts are thus able to purchase so-called unessential goods in the States and ship them directly to Shanghai where they are unloaded under the eyes of the Customs guards who either are unable to interfere or have received instructions to disport themselves elsewhere.

In some markets, and for some articles, the sellers' market has already flagged, while in others it is showing signs of flagging. It is therefore absolutely vital that the quality of British exports should remain as far beyond question as Britain's commercial reputation itself. Britain must survive in the markets of the world by quality rather than by mass-production.

British Quality

The word "quality" in this context has generally been taken to cover materials, design and workmanship, irrespective of price—and in many of Britain's industries, particularly the ancient craft industries, it is undoubtedly true to say that better quality, in this sense, could not be furnished elsewhere at any price; in general, however, the term is being more broadly interpreted to cover both quality and price, i.e. value for money.

Now, it is not always appreciated that Britain has come to rely increasingly upon the quality—in the narrower sense—of her products since the war, and this reliance is likely to increase in the future. The reason is that two of the constituents of quality, design and workmanship, enter more into articles the more fully manufactured they are, and the trend in Britain's export trade is towards a continually growing proportion of fully manufactured goods, in which centuries of inherited skill, the latest research and production techniques, all assert themselves most conspicuously. Economists have noted this trend as it accompanies the industrialisation of countries which transfer a larger and larger proportion of their total labour force from primary to secondary and then to tertiary industry. Britain, as the most highly industrialised country in the world, its greatest importer of primary products and greatest exporter of manufactured goods, now forms, for the economists, a test case.

At the British Industries Fair, after 21 months of continuing ascendancy of manufactured goods in the export tables, British manufacturers had a direct opportunity to test this trend against the reaction of some 15,000 buyers from every part of the world.

Skilled Workmanship

The results of this test formed a magnificent vindication of the quality of British products in general even, in most cases, in relation to price. The remark of a Danish buyer, "The quality of your products is far higher than we could have thought possible," is typical of world reaction. A buyer from Buenos Aires, picking up the rear hub of a bicycle, and comparing it

with a sample from another country, exclaimed: "Theirs is just blown to—**Bright Future also in a Buyers' Market**—yours is solid quality, the result of skilled workmanship." Even where British prices were found to be higher, most buyers agreed that the quality was so, greatly superior to rival products from other sources that the quality-price relationship was in fact highly favourable. These buyers expressed themselves willing to wait, if necessary, for many months to take delivery of these goods, which were certain to remain ahead of their competitors in overseas markets for many years. As a whole, therefore, and in those products where, workmanship and materials are the essence of Britain's reputation, British industry has fully vindicated its policy of putting quality above all other considerations.

Far more significant, however, both in quality products and in those designed for price markets, is the continued determination of British manufacturers to cut their costs, and consequently their prices, without any lowering of quality. When a famous British motor concern recently announced price reductions similar to those pioneered in the United States by the Ford organisation, this was only one outstanding example of a trend which is manifest in many less publicised industries, and many other examples could be quoted. The real lower than the average index for imports, even after allowing for freight sued with Government aid over the sea is not that prices had been held at any artificially high level. Indeed, since World War II the index for British exports has been steadily entire field of British manufactures.

Bright Future also in a Buyers' Market

That is why the potential disappearance of the so-called sellers' market, in which price is of little consequence, has raised few fears among British industrialists. They are concerned, rather, to know how far ahead of their competitors their value will be found to be when prices settle down in the open market by the normal laws of supply and demand, and how far the demand for British quality continues as a controlling influence in those world markets where it had established an unassailable reputation before the war.

Foremost among the means by which, on a national scale, costs are being attacked in British industry, are the many Working Parties which have reported on the scope for increased efficiency in their respective industries—and it is interesting to note that, even in an almost entirely craft industry concerned mainly with quality, like jewellery and silverware, the question of production costing systems figures high in the Working Party Report. Improved machinery and techniques are, however, playing a more immediate part in lowering costs.

HONGKONG SHIPPING REPORT

Registering a decrease of 58,320 tons, or 4.3 percent when compared with the previous month, a total of 785 ocean and river ships aggregating 1,304,537 tons arrived here and left for abroad during the month of July. Of this, 1,152,213 tons were accounted for by ocean going steamers and 152,324 tons by river boats.

The river navigation between the Colony and Canton, Macao and other river ports in Kwangtung was dominated by British vessels, which accounted for 88.5 percent with Chinese ships responsible for 11.5 percent.

Like in river traffic, British shipping topped the list also regarding ocean shipping for July, claiming 41 percent of the total ocean going ships' tonnage, followed by U.S. ships with 24 percent. Chinese vessels with 7.7 percent, and Dutch and Norwegian steamers respectively with 7.6 and 6 percent, while ships of other flags took up the remaining 13.7 percent. European shipping (excluding British and Soviet ships) reached almost 20 percent of the total ocean going tonnage, in July.

When combined, Hongkong's ocean and river shipping returns for July showed that British shipping accounted for an aggregated tonnage of 607,451, or 46.5 percent of the total number of ships which entered this port and cleared for abroad. American vessels

took the second position with 277,134 tons, or 21.2 percent, while Chinese ships came third accounting for 106,705 tons, or 8.2 percent. With 87,013 tons entering and leaving Hongkong in July, Dutch steamers accounted for 6.7 percent, while Norwegian ships claimed 5.2 percent, or 68,016 tons. Other foreign ships accounted for the rest 12.2 percent aggregating 152,218 tons.

Altogether 10,257 tons of bunker coal and 16,811 tons of bunker oil were taken out in July by ocean and river steamers. Ocean going ships took 8,279 tons of coal and 15,224 tons of oil and river steamers 1,960 tons of coal and 1,587 tons of oil.

During July the deadweight of commercial cargo (excluding Govt. and H.M. Forces stores) discharged from ocean steamers amounted to 203,281 tons, while 61,953 tons were loaded on ocean vessels for abroad. When compared with June, commercial cargo brought in by ocean ships increased by 25 percent, or 41,888 tons, and that taken out dropped by five percent, or 3,576 tons.

A total of 88,916 persons came into and left the Colony by ocean and river steamers in July. The arrivals were 19,278 by river boats and 28,465 by ocean vessels, making a total of 47,743 persons, while the departures were 21,386 by river vessels and 19,787 by ocean ships, totalling 41,173 persons.

HONGKONG SHIPPING REPORT

Arrivals For The Month of July, 1947.

FLAG.	Ocean Steamers		River Steamers		Total		PASSENGERS			
	No.	Tonnage	No.	Tonnage	No.	Tonnage	Cargo Steamers	River Steamers	Ocean Steamers	Total
British	84	231,263	127	66,639	211	297,901	4,918	17,210	12,998	30,208
American	26	137,232	—	—	26	137,232	—	—	1,890	1,890
Chinese	63	46,235	43	8,639	106	54,874	1,309	2,068	3,967	6,035
Danish	6	28,108	—	—	6	28,108	—	—	56	56
Dutch	9	41,288	—	—	9	41,288	—	—	7,670	7,670
French	1	7,375	—	—	1	7,375	—	—	360	360
Norwegian	17	34,026	—	—	17	34,026	—	—	1,216	1,216
Panamanian	8	22,603	—	—	8	22,603	—	—	16	16
Philippine	6	14,544	—	—	6	14,544	—	—	102	102
Portuguese	2	4,285	—	—	2	4,285	—	—	184	184
U.S.S.R.	1	7,176	—	—	1	7,176	—	—	—	—
Swedish	2	6,833	—	—	2	6,833	—	—	6	6
Total Foreign	141	349,705	43	8,639	184	358,344	1,309	2,068	15,467	17,535
Total	225	580,967	170	75,278	395	656,245	6,227	19,278	28,465	47,743

Departures For The Month of July, 1947.

British	89	241,451	128	68,099	217	309,550	4,939	21,121	7,082	28,203
American	27	139,902	—	—	27	139,902	—	—	1,020	1,020
Chinese	59	42,884	42	8,947	101	51,831	2,270	265	2,829	3,094
Danish	3	14,098	—	—	3	14,098	—	—	27	27
Dutch	10	45,725	—	—	10	45,725	—	—	6,722	6,722
French	1	7,375	—	—	1	7,375	—	—	378	378
Norwegian	16	33,990	—	—	16	33,990	—	—	1,421	1,421
Panamanian	5	16,963	—	—	5	16,963	—	—	11	11
Philippine	6	14,544	—	—	6	14,544	—	—	103	103
Portuguese	2	4,285	—	—	2	4,285	—	—	184	184
U.S.S.R.	1	7,176	—	—	1	7,176	—	—	—	—
Swedish	1	2,853	—	—	1	2,853	—	—	10	10
Total Foreign	131	329,795	42	8,947	173	338,742	2,270	265	12,705	12,970
Total	220	571,246	170	77,046	390	648,292	6,809	21,386	19,787	41,173

AVIATION REPORTS

ANGLO-CHINESE AGREEMENT

The bilateral air transport agreement between Britain and China will open eight ports in the Empire to Chinese traffic and four principal landing areas and water bases in China to British aircraft.

The agreement, which is valid for four years, accords designated British airlines the right of traffic in passengers, freight and mail at Shanghai, Canton, Kunming and Tientsin.

Using flying-boats, BOAC is expected to be the major airline representative of the United Kingdom. China airlines will have similar rights at London, Prestwick, Hongkong, Singapore, Penang, Kuching, Jesselton and Labuan.

Although not included in the pact, BOAC and CNAC have concluded a gentlemen's agreement which will limit the number of passengers leaving Hongkong for China aboard British planes to 100 weekly. In this way, strong competition for the Chinese will be avoided. It is obvious that Chinese and European travellers prefer British, American and European craft to Chinese air-services.

British planes may make non-traffic stops at Hoihow (Hainan) and Amoy and emergency landings at Swatow and Foochow.

BOAC, whose flyingboats will enter Shanghai from Hongkong, will be allowed to use, for non-traffic purposes, water bases at Kwangchowwan, Swatow, Quemoy (east of Amoy) and Wenchow.

China has also agreed to grant airlines of the United Kingdom on scheduled international services between Hongkong and Macao the right to fly across and make emergency landings in Chinese territory between these two ports.

BOAC SCHEDULES

A new and improved BOAC Speedbird flying-boat service between Hongkong and the United Kingdom has commenced since August 7.

The twice-weekly route is serviced by Plymouths, which means that 44 passengers can leave Hongkong for Poole and intermediate ports every week. The Hythe class flying-boats, which have a limited passenger and cargo-carrying capacity, are being withdrawn from the route.

Changes have been made in the UK-Hongkong schedules. The Plymouth aircraft from Poole arrives in Hongkong on Thursdays and Sundays, departs for the United Kingdom every Wednesday and Saturday. Departures of these aircraft from Poole are Monday and Friday, and arrivals in the United Kingdom from Hongkong on Monday and Thursday.

A slight change has been made in the Hongkong-Singapore schedules. Departures from Singapore are on Thursday, with arrival here on Friday. Departures from Hongkong remain the same, viz., Sunday, arriving in Singapore on Monday.

PAA NEW ROUTE TO H.K.

Pan-American Airways will start a service to Tokyo and Hongkong by the end of August. Flying characteristics of the new route need final approval of the Civil Aeronautics Administration.

The new service would be supplemental to the present Manila-Bangkok-Shanghai around the world circuit operated by P.A.A. Its application to serve Tokyo was approved in principle by CAA.

MALAYA AIR SERVICES

Malaya's internal air services began to operate on May 1. There is a daily return trip between Singapore and Penang, and there are less frequent flights to Kuala Lumpur, Kuantan and Kota Bahru.

The present service is to be used also for internal air mails at 15 cents for the first ounce, and will also carry air mail correspondence for overseas to the terminal airports.

Development works for Changi aerodrome began in February, 1947, and the aerodrome will be one of the largest

MINING OF WOLFRAM ORE & THE HONG KONG MARKET

Tungsten or wolfram ore may come in three principal minerals: namely, the Ferberite, Hubnerite, and Scheelite. Ferberite is an ore which contains less than 20% manganese tungstate and Hubnerite contains less than 20% iron tungstate. Both are commonly known as wolfram and they possess a deep brown to dark colour. Scheelite is a white or yellowish calcium tungstate ore with a lighter specific gravity. The greater part of Chinese tungsten ores is wolfram. Scheelite is very rare.

Asia has a large deposit area of tungsten ores. It may be safe to say that these ores are found within the "Tin Belt" starting from Burma, Java, Sumatra, Malaya, Siam, Indochina, extending along the China coast up to Japan and Korea. But the degree of richness of this mineral is different at one place from another.

Burma at one time, during the period between 1910-1920, was the world's largest tungsten producing country in the world. Her importance as the leading tungsten producer was later replaced by China. Even prior to the

outbreak of the Sino-Japanese War, China was still a leading producer of this mineral. China produced more than 10,000 metric tons or more than one-third of the world's output.

Tungsten ores are found in the United States in Colorado, Nevada, and California, but the quality of the ores is not good enough for profitable mining operation as long as China and other producing countries can still produce this mineral at economical prices and continually supply American needs.

Deposits in South China

The important producing centers of tungsten ores in China are in the provinces of Kiangsi and Kwangtung. Kiangsi Province produced about ninety percent of the total output prior to the outbreak of the war. The most outstanding producing area is in Si-Hua-San in the district of Da-Yee. Lung-Nam, Ding-Nam and Chien-Nam are also well known producing districts, but they do not have such big production as Da-Yee district. All of these four districts mentioned are in the pro-

HONG KONG AVIATION REPORT

Hong Kong's air traffic during July recorded a 21-percent increase over the previous month with 254 aircraft arriving in the Colony.

Passengers landed here during July numbered 4,233 and took 3,770 off from the Kai Tak Airport, leaving behind 463 persons to be added to Hongkong's population. The total number of passengers who availed themselves of air travelling between here and the outside world in July was 35 percent more than June.

More air mail matters came into the Colony than those left here for abroad in July during which period the Hong Kong Post Office handled 16,880 kilograms of incoming and outgoing air

mails. The total represented an increase of 26 percent over the last month.

Despite 53 more aircraft called on and left here in July than in June, the total air freight handled by the Colony in the month under review was 29 percent smaller than during the previous month. The quantity of freight taken out from here by aircraft in July was 2,931 kilograms heavier than the total incoming air cargoes in the same month.

In July a Catalina amphibian aircraft owned by the Cathay Pacific Airways Ltd. was registered in the Colony Registry of Aircraft under the letters VR-HDS.

The following are aviation figures for the month of July:—

	In	Out	Total
Passengers	4,233	3,770	8,003
Freight	18,493 kgs.	21,424 kgs.	39,917 kgs.
Mail	9,059 kgs.	7,821 kgs.	16,880 kgs.
Aircraft	254		

and best-equipped in the Far East. It plans now submitted to the Air Ministry are approved, North Malaya will have its largest and most modern aerodrome at the present Mata Kuching air-strip in Province Wellesley.

HONGKONG AIRFIELD

The decision regarding the new airfield is expected within a short time after much necessary research and un-

necessary procrastination. The site has not yet been decided but Stonecutters Island appears to be generally favoured by aviation experts.

A comprehensive four months' survey of airfields on routes between Hong Kong and Singapore and in the China Sea area has been completed some time ago by technicians of the Ministry of Civil Aviation. Special attention was paid to radar navigational aids and technical services available.

vince of Kiangsi, but near the north-eastern border of Kwangtung Province. Kwangtung Province also has widely scattered tungsten deposits. In the northern districts of Che-Sin and Sau-Kwan, tungsten mining was developed to some extent even during the war. Ba-Bau-San is also a well known producing area in this province. While along the eastern river, at Wu-Hua and Sin-Sen, are better known producing areas, Yuan-Foo is also a fruitful producing area along the western river. Besides these mining districts, along the Pacific coast are also Yung-Kiang, Chung-San and Toi-San as wolfram producing areas.

Annual output in Kwangtung has been estimated before the war to be below two thousand metric tons of tungsten ores. An exact official figure indicating the actual output of Kwangtung is difficult. This province happens to be so near Hong Kong and Macau that it facilitates smugglers in bringing their ores out of the Chinese borders by fishing boats. Meanwhile there is no record of production because the individual producers are so numerous in widely scattered countries that it is hard to check them up.

Smuggling of Wolfram

Tungsten ores have been listed in the Chinese Government control and were considered military essentials even before World War II. Smuggling to Hong Kong and Macao was known since long ago. When the borders were for a time under very rigid government control in preventing individuals to smuggle this essential material out of China, some unscrupulous technicians have even gone so far as fusing the tungsten ore with soda ash and leaching out the sodium tungstate from the bulk of their melts, and exporting this new compound under some false name in order to gain a handsome profit when their goods reached Hong Kong.

Most geologists agree that tin ore or cassiterite is nearly always associated with some tungsten ore. This is true with the tin producing areas in Yunnan, Kwangtung, Kiangsi, Kwangsi, and Hunan provinces although the degree of wolfram percentage associated with tin ore varies in degrees at different places.

The District of Kotschiu in Yunnan

In the days between 1937-1939, Kotschiu, Yunnan, was producing well between 1,000 to 1,200 metric tons of wolfram per year, but before 1936 the native miners there condemned wolfram and called it "devil" in the tin ore shaft because they did not know this "devil" was wolfram, which gave them much trouble in tin smelting. Later, it was identified as wolfram and the miners were more than pleased to mine wolfram instead of tin because tungsten mining became more profitable.

Kwangsi and Hunan wolfram is not worth mentioning because the annual output is small and therefore not to be considered of commercial value unless better deposits may be found in the future. A small percentage of wolfram is found in Ba-Bo tin mining districts in Kwangsi. Hunan produces very little near the border of Kwangsi province.

Mining Methods

The forms of deposits which lend themselves to different methods of mining are loose surface deposits formed by weathering of granite and sometimes limestone; alluvial deposits, a sedimentary deposit from disintegrated veins in higher mountains; and the deep vein deposits which may be embedded in granites and possibly in between granite and calcite. In the past and at present the greater percentage of Chinese tungsten ores is being mined from the surface deposit through the open pit mining method which commences digging the ore and gangue from the surface to a depth where the founding of the ore is depleted. Whether the percentage of tungsten ore production through panning from sedimentary deposits is higher than that mined from deep veins is debatable. Nevertheless, the main productive method in tungsten ore in China is still open pit mining.

The richer deposits may be operated by organized companies which operate their mines throughout the year. Individual miners, principally farmers, usually utilize their time in raking their open pits and panning sedimentary deposits in between spare time after sowing their fields and tending to their harvests as their extra income. The source of production from this direction contributes a fairly good percentage in making up the Chinese total annual output.

Ore Dressing

The greater part of the Chinese tungsten ores is being mined from open pits and most of the ores are being freed from gangues by pounding by hand with hammers. The use of a jaw crusher in reducing quarries before segregating ore from gangues during the process of concentration is very limited. It is due to mica-like formation of wolfram which forbids fine crushing before concentration. The application of manual labour in the present Chinese method of concentration amounts to a high cost of production per unit, but on the other hand the chance of losing the finer particles of the tungsten ores is much less.

Therefore, a coarsely crushed ore is desired in order to avoid heavy loss during the process of concentration. Further concentration by magnetic separation was employed in Canton and Hong Kong prior to 1942. The object of separation was to separate tin ore or cassiterite from the wolfram in order to recover a valuable by-product and obtain a higher tungsten percentage in the wolfram concentrate at the same time. At one time a 64% tungsten content in wolfram was a common standard in the purchase of tungsten ores in Hong Kong. Occasionally, purchasers in Hong Kong required 65% tungsten content, but the law of supply and demand is still the governing factor in making selections. The percentage standard of tungsten content is being regulated from time to time so as to be adaptable to market conditions. The current tungsten content percentage standard is now settled at 60% only.

PREPARATIONS FOR TRADE WITH KOREA

An official trade mission from Southern Korea, composed of a number of officials and businessmen, headed by Messrs. Li Chi-fan, Director of Import-Export Dept. of the S. Korean Trade Bureau, and King Chen-ting, Salt Commissioner of the S. Korean Finance Bureau, arrived in Hongkong for the purpose of negotiating with H.K. Govt. and private merchants about intensification of trade between Korea (under U.S. control) and Hongkong. The Mission is of the opinion that Hongkong is a centre of commerce in the Far East and that through Hongkong much progress of interchange of goods between Korea and Far Eastern countries can be achieved.

The negotiations between the Korean trade mission and local Govt. officials will take some time, however. The basis for trade should continue to be on a govt.-to-govt level until instructions are here received about the resumption of private trading with Korea. So far no concrete information has been sent here by SCAP or the US Dept. of State.

Private trading has been carried out since several months between Hongkong and S. Korea via Macao (cf. our issue of July 23, p.220). Experiences made by many merchants and shippers have been very satisfactory and as a consequence a bi-monthly scheduled service between Macao and Fushun (as well as two other Korean ports) was inaugurated by a Chinese shipping company, the South West Industrial Co. Ltd., who chartered the 4,300 ton s.s. Empire Labrador. This ship made her maiden voyage at the beginning of August, is expected back in Macao by middle of this month and will sail

Marketing of Wolfram Ore

Hong Kong will develop into the market of the future of China's tungsten ores. Smuggling out of China will be increasing as long as the Chinese Government is in control of this product. The official price offered by the Chinese Government in collecting the ores from miners is too far below cost of production and this is the chief factor which stimulates smuggling. The only answer to put an end to smuggling is that the Government must regulate the official price in collecting these ores from miners so that it is not below the cost of production.

Uses of Tungsten

The importance of tungsten in steel alloys for armaments cannot be over-emphasized. Tungsten metal in electric light filaments, thermionic valves, X-ray tubes, etc. is very useful. Tungsten compounds are employed as mordants and fire-proof materials. Many colours, which are highly resistable to light and weather, in violet, blue, green, and orange; and colours for paint and ink are also made with tungsten.

RESUMPTION OF PRIVATE TRADING WITH KOREA

again for Fushun around 21st inst. The shipping company charges a freight rate of \$235 per 40 cubic ft for goods from Hongkong via Macao to S. Korean ports, which amount also covers all fees incidental to clearance of goods in Macao. Merchants who load 100 tons of cargo are entitled to free passage to and from Korea.

A number of chartered vessels, large steamers as well as big motor junks, are currently engaged on the Hongkong-Macao-Korea run. Some merchants report very good results, having obtained an unexpectedly large quantity of valuable minerals and ores in return for rubber, newsprint etc. which were purchased here at relatively low cost. Other merchants complain about the very long delay caused by formalities and slow progress of bartering in Korea; thus while the actual exchange of goods would mean a very profitable proposition, the time required for the necessary negotiations is so long, sometimes 2 months, as to eat up in the end all profits since the amounts demanded here for chartering of local ships for the Korea run are excessive.

Macao has been experiencing, on account of the transshipment of goods from Hongkong to Korea, a period of modest prosperity. With the advent of regular private trading being permitted, there should be no further necessity for merchants to use this round-about way.

Following are two lists of commodities and raw materials which are available in Korea for export abroad and which are required in Korea from foreign countries.

(I.) Commodities and Raw Materials Required by Southern Korea from Foreign Countries:

I. Raw Rubber, Newsprint, Salt, Saccharine, Woolen Yarn, Soap, Chinese Drugs, Woolen Piece Goods, Sugar, Woolen Blankets, Black Pepper, Glass, Glass Wares, Fertilizer, Battery, Vaseline, Paraffin Wax, Potassium, Pigment, Cotton Yarn, Cotton Piece Goods, Stearine, Cod Liver Oil, Fish Oil, Soybean Oil, Petroleum, Matches, Cotton Seed Oil, Wood Oil, Olive Oil, Tea Oil, Peanut Oil, Coconut Oil, Caustic Soda, Ammonia, Paint, Flint, Dyes, Coffee, Paper, Foreign Medicines and fine Chemicals.

(II.) Commodities and Raw Materials Available in Southern Korea for Export to Foreign Countries:

II. Bismuth, Sulphur, Antimony, Molybdenite, Silica Sand, Amber, Diatom Earth, Agar-agar, Agar-agar Powder, Dried Lobster, Dried Awabi, Compost, Sea Slug, Laver, Glue Shield, Dried Sardines, Mackerel, Hair-tail Fish, various dried and salted fish, Gelidium, Flourite, Mica-paper, Mica-board, Mica-washer, Mica-ring, Mica-tube, Mica-powder, Mica-tape, Mica-piece, Tungsten (sheelite), Ferro Tungsten, Tungsten Concentrate, Graphite, Cobalt, Manganese, Magnet, Zircon, Sweetened Ginseng, Red Ginseng, White Ginseng, Pimi, Ginseng Syrup, Pisum, Silica Sand, Ginseng Powder, Ginseng Pills, Ginseng Extracts, Raw Silk, Mushroom, Canned Beef and Canned Fruits.

The U.S. Govt has permitted as from July 15, the entry into South Korea of American businessmen, however, their number is subject to limitation by the US Dept of Commerce who accept applications and make decisions regarding the number of businessmen to be allowed to go. US businessmen may travel to Korea for trade purposes only, purchase goods available for export, and sell American or other raw materials needed in Korea. The final decision regarding the total number of businessmen admitted into Korea, and the length of their stay, rests with U.S. Army Military Govt in Korea (USAMGIK). The question of living accommodation is also to be decided by USAMGIK.

Other than American businessmen appear as yet not to be allowed entry into American-controlled Korea. European businessmen charge discrimination, and favouritism as regards American business. Since, however, the American army is in full control of life in S. Korea, it is only natural to expect that American business will be treated preferentially. In due course, provision will be made to allow other than American business representatives into the country.

All imports into and exports from South Korea will be controlled through the issuances by USAMGIK of import and export licenses. Stocks and production from plants under direct USAMGIK control will continue to be sold through government-to-government channels. Preliminary advice from USAMGIK indicates availability of the following general classes of Korean products

for export through private channels.

Wicker baskets; fish creels; graphite; tungsten; flourite; mica; ginseng; lead; zinc; porcelain clay; fish and other marine products (including lavar, agar agar, shark fins); leaf tobacco; raw silk; handicraft goods, such as lacquerware; and molybdenum.

Transactional communications, involving actual purchases and sales contracts, also the exchange of samples, are now permissible under regulations administered by USAMGIK.

KOREA COTTON PRODUCTION & INDUSTRY

Production of seed cotton in South Korea (U.S. Zone) in 1946 was estimated at 131,879,359 pounds, a decrease of 18,999,101 pounds from 1945, because of less acreage, floods, and fertilizer shortage.

Lint-cotton stocks in 1946 were reported as 78,189,303 pounds, and required imports in 1947 were estimated at 20,000,000 pounds.

As of December 1946, of the 8,512 cotton power looms installed, 4,590 were operable and 3,922 repairable and awaiting parts from Japan. Of the 238,000 cotton spindles installed, 120,000 were operable; cotton waste spindles numbered 40,000, of which 12,400 were operable.

Cotton-cloth production in South Korea during the 3 months August-October 1946 is estimated at 1,389,977 square yards.

COMMERCIAL REPORTS

BANK FAILURES

Commercial and financial markets in South China were greatly perturbed during the last week following the closure of a number of native banks and money exchangers in Canton, Swatow and also in Hongkong as well as following the discovery, seizure and confiscation of large quantities of contraband and unmanifested goods aboard several steamers in Canton and Hongkong.

The suspension of business earlier last week of the Tsen Ho Bank in Swatow had far-reaching effects on its sister organisations and subsidiary firms as well as closely associated money exchangers not only in Swatow, Canton and Hongkong, but also in Bangkok and Shanghai.

The failure of the Tsen Ho Bank and its subsidiary firm, the Transocean Trading Company, to continue

operation here has brought great losses to hundreds of local depositors and exerts much influence on many newly established smaller and financially unsound Chinese banks here. A number of these banks experienced very large withdrawals from their clients after the closing down of the Tsen Ho Bank, and many found themselves in difficult positions.

Financial circles attribute the slackening of banking business in the Colony to the decrease of Hongkong's foreign trade, the rigid Chinese controls over imports, the lessening of cargo transportation to China's interior, the dropping of the purchasing power of Chinese here and abroad, the reluctance of large capitalists to deposit money in local banks (as they prefer to invest in speculation business where they obtain higher interest), and the engaging in speculation by native banks themselves.

NANKING-HONGKONG TALKS

The unsteady financial situation in South China has been worrying not only the trading, banking and industrial circles but also the financial authorities in Shanghai and Nanking. The selling of Chinese money in Hongkong is more profitable than remitting it through banks to the Colony from South China areas. This unavoidably forces many individual Chinese to carry Chinese currency into the Colony in order to get a better exchange rate, and even official Chinese organisations here are doing the same.

Mr. Chang Chia-ngau, Governor of the Central Bank of China, is reportedly coming to the Colony from Shanghai before the end of August. The purpose of his visit will center on negotiations with the local authorities over the improvement of remittance procedures of Chinese from overseas areas to China via the Colony and the strengthening of the anti-smuggling strategy between here and S. China.

To combat the Japanese trade revival and to earn more foreign currency for China, the manager of the Govt-owned China Textile Corporation arrived here a fortnight ago to open negotiations with HK Government for the sale of 10 per cent of the monthly production of the Shanghai mills to the Colony. Preliminary negotiations in this connection failed to produce any concrete results, since the Chinese price for cotton yarn and piecegoods is higher than the Japanese quotation. The manager of the China Textile Corporation has meanwhile left here for Manila and Singapore to push sales of the products of the Chinese Govt textile combine in those areas.

SMUGGLING SETBACK

The recent seizure and confiscation of large quantities of contraband cargoes by the Chinese Customs in Canton and by the Hongkong I & E. Department, discovered aboard s.s. Fatshan and s.s. Sinkiang, has brought financial losses to many regular organised smugglers, customs brokers and transportation companies. Last week even illicit trading between here and South China ports recorded a considerable drop since traders, customs brokers and transportation companies have been more cautious and reluctant to risk such confiscation repetitions.

Though slashing at Hongkong authorities for lack of cooperation, Chinese authorities have been doing nothing themselves to improve the anti-smuggling measures in China. A thorough investigation into the behind-the-scene activities and powers of the port and army authorities in Chinese cities will be absolutely necessary if the Chinese Government wish to combat large scale smuggling activities between here and South China.

Traders are of the opinion that without protected smuggling, South China's factories will have to close down and people will remain unsup-

plied with many daily essentials. If merchants wish to import say CN\$1 billion worth of foreign goods into South China through legal channels, they may not be granted permission or, if granted, they have to pay CN\$700 million Customs duty. Should he choose the protected transportation way, merchants have only to pay CN\$300 million transportation charges to get the goods safely into South China. In this case, merchants never risk anything since the protected transportation company will offer compensation at cost price should the goods be seized and confiscated.

The requests made by the Chinese Government for Hongkong cooperation with regard to the financial agreement and the prevention of smuggling into China are enormous. The plans forwarded by the Chinese authorities to the Hongkong Government provide for the examination of goods here and levy of duties by the Kowloon Customs on all goods intended for shipment to China before ships are to be allowed to leave the Colony, furthermore the permission for Chinese preventive boats to patrol within the British waters of Hongkong.

PROTESTS AND PETITIONS

While the Chinese Chamber of Commerce in Hongkong is still awaiting a reply from the Executive Yuan over its recent petition and while the Chamber of Commerce in Canton is also waiting for the departure of the Director of the South China Import and Export Control Board for Nanking with its newly drawn-up petition, the Chinese Chamber of Commerce in Macao has likewise formulated a similar petition to be presented to the Executive Yuan and the Kwangtung authorities concerned against the rigid import-export controls and the small foreign currency import quotas for South China.

In the meantime, the Hongkong General Chamber of Commerce has last week received additional complaints from foreign firms here over the serious trade situation in the Colony brought about by Chinese restrictions. The Chamber will probably bring up this subject for discussion at its forthcoming general meeting before the end of this month. Meanwhile, the Chamber wishes to take no measures in this connection.

Many local importers cancelled large orders from abroad in the past week. This step was found necessary by local importers since there was no immediate hope for re-exporting such goods to Chinese markets.

PRICE ADVANCES IN CANTON

Owing to an inadequate supply following the revision of import regulations, prices of many daily commodities and industrial raw materials have recorded further considerable increases in the past week in Canton. The price of gasoline

has jumped to CN\$540,000 per 50-gal. drum, the official price being CN\$200,000; of raw cotton to CN\$2 million per picul; of glass (36" by 39") to CN\$1,015,999 and (40" by 50") to CN\$1,050,000, and of caustic soda (Moon brand) to CN\$10 million per drum.

The prohibition of importation of raw materials without foreign currency allotment has prevented many Kwangtung firecracker factories to meet their export orders. Before the enforcement of the new import regulations Kwangtung firecracker factories had received orders from the United States and Africa amounting to about HK\$5 million. Part of these orders had been finished and shipped out. But now they are unable to obtain enough raw materials such as foreign paper and powder, even at the already increased prices which have jumped 50 to 100 percent at the end of June.

Several factories are removing their works to Macao or Hongkong.

SOUTH CHINA TRADE

During July, Canton's exports included 450,388 cattles of tung oil, 236,840 cattles of beans, 9,415 cattles of tobacco, 192 cattles of raw silk, 11,925 cattles of tea leaves, 4,134 cattles of bristles. In the same month, the Central Trust in Canton purchased 1,600 piculs of tung oil at the official price of CN\$450,000 per picul (the market price is CN\$830,000 per picul), its Wuchow office 4,000 piculs and Hankow, Chungking and Changsha 20,000 piculs combined.

Official figures of foreign currency import quotas for South China for the third quarter are still unavailable, though the all-China allotment has been made known in Shanghai at the end of the last month. With the third quarter quotas still hanging in the air, the South China Import and Export Control Board on Aug. 7 announced the suspension as from Aug. 8 of import permits to registered importers who have failed to apply for their second quarter quotas.

In the month of July Foochow registered a favourable trade balance of CN\$7.9 billion. Its imports amounted to CN\$21.5 billion and exports to CN\$29.4 billion. When compared with the June figures, Foochow's exports in July recorded an increase of 33 percent. Native produce of Fukien accounted for CN\$27.5 billion of the total exports.

Hongkong trade with Taiwan has come to a practical standstill since the beginning of last month owing to remittance difficulties. Freight rates from Hongkong to Taiwan dropped to \$40 from \$90 per ton in the last fortnight.

TRADE PROMOTION PLANS

The Canton branch of the Import and Export Promotion Association was officially inaugurated on Aug. 9, while its Hongkong branch is scheduled to be established before the end of this month. Members of the yet-unformed Import and Export

EXCHANGE & FINANCIAL MARKETS

FUTURE OF STERLING & FREE MARKET RATE

From all accounts it appears now, only three weeks after sterling became freely transferable subsequent to July 15, that the British economy could not yet afford to permit sterling convertibility. The drain on Britain's dollar resources was very large during the last three weeks which fact, coupled with a number of unfavourable causes unavoidably arising out of the inheritance of war, makes it imperative that the free convertibility of sterling be adjusted. Such adjustment could only take two forms: either Britain reverts to the course of affairs as obtained prior to July 15, i.e. cancels the free transfer of sterling—a very improbable development however, which nobody in London or Washington expects or considers; or an adequate support of sterling in the international free market by the U.S. Government.

The American economy can only avoid a severe crisis, with all its accompanying world political and military implications, if Britain is fully supported. It is, therefore, more than probable that the American Administration will maintain sterling at its official exchange value by purchasing any sterling which is being offered; in other words, America will have to subsidise in still

another form her own exports to Britain, the sterling area and the world at large.

As long as there continues an excessive unbalance of international trade, with the U.S. piling up month after month increasing dollar credits abroad, and most other countries conversely increasing their adverse trade balance with the U.S., there is no solution for this dilemma to be hoped for. It is in the self-interest of the American economy to maintain and to enhance its exports; the American domestic market cannot absorb more than it does under present social conditions. The U.S. Government, that means the American public at large, will have to subsidise, much more actively than in the past, exports from the U.S. until international trade will have returned to more normal forms i.e. when visible and invisible exports and imports of most if not all countries will balance each other.

Some American economists have previously stated that America has underwritten Britain. Since Britain has underwritten American policy in the post-war world, with all its attendant dangers for the future of mankind, it is only natural that American resources must come to the active support of the British economy.

Free convertibility of sterling was one of the principal demands which Wall Street made on the British Government, obviously being convinced that world trade would profit from such development. If, however, experience now shows that free convertibility of sterling, in spite of all the strings attached to it, was very much premature, it will be the responsibility of Wall Street and the U.S. Government, in the interest of their self-preservation and maintenance of world domination, to keep sterling at its official level, and to prevent by all means the devaluation of sterling.

At present, and since the outbreak of the war in Europe in 1939, there exist two sterling rates all over the world: the official rate and the free market rate in New York and other markets outside the Empire (which is always similar to the black market rates of US\$ as quoted inside the sterling area). The free rate has fluctuated very much during the years of war and what is euphemistically called the peace of our days.

During the current year sterling on the free market in the U.S. was on the average devalued by 25%. Traders all over the world took fullest advantage of the existence of the free sterling market in New York and other free or, inside the sterling area, black exchange markets. Hongkong was no exception to the rule. The free (or black) market rate of sterling and sterling area currencies tended to promote business; exporters of commodities from the sterling area to the U.S. found a welcome subsidy in the form of a 20 to 25% premium on US\$, which impor-

ters of American goods were not in any way impeded by the discount on US\$ as the world still remains a seemingly inexhaustible customer for almost anything America can deliver.

It is illogical that there should continue two sterling rates, one official, fixed, unchanging, and the other subject to the vagaries of the market and the mood of speculators. That the New York market, and with it the rest of the Anglo-American world, deals in sterling at a discount against the official rate reveals the inherent weakness of the economy of this world.

The local market does not look very far ahead nor is it much concerned about analyses of causes and effects of financial developments. Most financiers here act as it were intuitively; they feel more than they reason. There is a general impression here that the crisis in Britain—whatever this term may precisely mean or conceal—is bound to weaken the free market sterling rate, and with the New York market giving the lead, many small capitalists start a flight away from sterling and HK dollar. All markets react nervously to "capital flight" phenomena and the local market was quite disturbed when, at the beginning of this week there was distinct investing by small capitalists in non-sterling values and accompanying speculation in such values which caused larger advances in quotations or vice versa depreciation of HK\$.

If investors would bear in mind the fundamental fact of an Anglo-American alliance in our contemporary Two-Worlds system of living and struggling, they would not be stampeded into an unreasonable flight from sterling and into the US\$. Unless there is to come a fundamental change in the present Anglo-American alliance, a development which is most improbable now, no alteration in the existing £/US\$ cross rate will happen and the eventual disappearance of the free sterling rate should be a matter of course.

Weakness of the Hongkong Dollar

The public had not much confidence in the stability of the HK\$ and was influenced by the continued rumour about an impending devaluation of sterling and the local dollar. Although the sober elements discredit such rumours a large section of the speculating and a considerable part of the investing public seem to be impressed by the economic difficulties of Britain which were much played up in the press during the past week.

The Chinese dollar was consequently strong and improved daily on both the local bank note exchange and with regard to remittances to North and South China. Towards the end of last week CN\$ rates were particularly strong, recording the highest prices seen here for many weeks.

In terms of gold, US\$ and other unofficial exchange quotations, the HK\$ lost some ground.

Promotion Association in Hongkong have recently received instructions from headquarters in Nanking to extend invitations to all manufacturers in the Colony to participate in the forthcoming exhibition of Chinese products in the Chinese capital to be held between September 3 and November 3. Invitations have already been forwarded to the local Chinese Manufacturers Association for distribution to its member factories.

LOANS FOR FACTORIES

Facing financial difficulties and exercised by the impending Japanese trade comeback, local factories have formed a committee for the purpose of obtaining loans from local banking institutions. The special loan committee is composed of six members, headed by Mr Sum Choy-wah, Chairman of the Chinese Manufacturers Association and Mr U Tat-chi, of the Hongkong Preserved Ginger Corporation. Although nothing concrete has yet been achieved by the committee, they have had several discussions with the Hongkong & Shanghai Banking Corporation and the Hongkong Government.

The committee thinks of using short-term loans for financing of exports for meeting payments of imported materials; long-term loans should be devoted to rehabilitation and general improvement of factories.

The local trade mission, which was scheduled to leave now has postponed its tour until a later date.

US\$ Transactions

Demand for US\$ was very active. T.T. was eagerly sought after by gold dealers which fact strengthened the rate and tends to bring the price up during the current week. There was also much merchant demand for notes and drafts which resulted in a strong undercurrent and a general feeling that further advance in the unofficial rate must be anticipated.

The difference between the draft / note and the T.T. rate is currently about 3% only; since importers of U.S. goods, if they make their arrangements through local exchange association banks, have to sell to the banks 10% over the amount of the invoice covering the imported goods, they actually fare worse than the importer who pays his bill by purchasing in the local unofficial market T.T. New York. Only such importers who require the opening of letters of credit continue with the practice of selling to the local banks the respective amount in US\$ notes or drafts which the banks here buy at the rate of \$388-1/3 (for US\$100, or US\$25½ for HK\$100) which amount covers mailing and insurance charges for notes and drafts.

The free market rate for sterling in New York has dropped since about a month; while only recently US\$3.15 was the free market bank's selling rate for resident or transferable sterling as well as for pound notes, the rate went down during July by about 5%, reaching a low level on August 7 and 8 of respectively US\$2.98/2.95 buying, and US\$ 3.03/3.00 selling. The Hongkong cross rate corresponded at the end of last week to US\$3.15 (i.e. 5% higher than the New York free market).

Increasing amounts of Overseas Chinese family remittances have been arriving here during recent months; the unrealistic official exchange rate of China makes it impossible for Chinese in the U.S. to send their drafts directly to their native places. Local exports of mostly China produce to the U.S. have been well maintained in recent months in spite of the repressive policy of the Chinese Govt which attempts to strangle private trade and monopolise all foreign exchange.

The local unofficial US\$ market has profited from the developments in China and has been able to dispose of all the Overseas Chinese remittances at prices which the remitters and their families or friends in China certainly find very satisfactory.

Shanghai and North China flight capitalists have been good customers but merchants from the North have also been active buyers of US\$ in every available form. Most of the family remittances from Chinese in the U.S. thus help both American industry and exporters to do more trade than would be otherwise possible, and Chinese private traders to engage in import business to the extent of the incoming family remittances.

Near Eastern merchant demand has been on the decrease since Egypt left the sterling area; previously

Cairo was one of the leading centres for exchange and arbitrage transactions. At present, demand for sterling in Palestine and some other Near Eastern trading places is quite strong, buyers offering about US\$ 3.10 per £.

Some interest was locally evinced for British securities in New York as the "security" free market rate in New York quoted last week sterling at only US\$2.40. At this price the purchase of British securities should prove of great attraction provided that the New York market is well supplied with these securities.

HONGKONG OFFICIAL EXCHANGE RATES

AGREED MERCHANT RATES

MAXIMUM SELLING		MINIMUM BUYING	
STERLING. 1/2 15/16 delivery within 2 months with a cut of 1/32 for every further 3 months forward.		1/3 1/32 T.T. 1/3 1/16 O/D. 1/3 3/32 30d/s. 1/3 1/8 60-90d/s. 1/3 5/32 120d/s.	
—Do— (East & South Africa)		1/3 1/8 O/D if under L/Credit. 1/3 3/16 O/D without L/Credit. 1/32nd up every 30d/s.	
—Do— (West Africa & West Indies)		1/3 5/16 O/D if under L/Credit. 1/3 3/8 O/D with L/Credit. 1/32nd up every 30d/s.	
RUPEES (India)	82 ¾	83 ¾ T.T. 84 O/D. 84 ¼ 7 & 30d/s. 84 ¼ 60d/s. 84 ¾ 80d/s.	
—Do— (Rangoon)	82 ¾	All buying rates 1/16th higher than India.	
—do— (Aden)	82 ¾	84 ¼ O/D if under L/Credit. 84 ¼ O/D without L/Credit. 84 ¾ 30 & 60 d/s.	
STRAITS \$	53	53 ¾ T.T. & O/D. 34 ¾ 30 & 60d/s.	
U.S.\$ and CANADA	24 15/16 delivery within 2 months with a cut of 1/16 for every further 3 months forward.	25 ¼ T.T. 25 5/16 O/D—30d/s. 25 3/8 60—90d/s.	
U.S.\$ NOTES.		25 ¾ (Banks to pay Insurance and Postage).	
AUSTRALIA.	1/6 ½	1/6 ¾ T.T. 1/6 15/16 O/D.	
NEW ZEALAND.	1/6 7/16	1/6 13/16 T.T. 1/6 7/8 O/D.	

HONGKONG UNOFFICIAL EXCHANGE RATES (IN HK\$)

		CN\$ (per one million)				(per 100)				(per 100)			
		Spot		Forward		S'hai		Canton		US\$		I.C.\$	
Aug.	High	Low	High	Low	High	Low	T.T.	T.T.	Notes	Draft	T.T.	Guilder	Baht
5	329	326	137 ¾	137 ¼	125	122 ½	123	134	485	489	505	12	35
6	340	327 ½	137	136 ½	125	124	124	134	485	489	505	12 ½	32
7	339 ½	333	135 ¾	135 ½	124	122	124	131	485	492	506	13	33
8	343	335	139 ¾	135	131 ½	124	127	134	487	495	507	14	33
9	346	340	140	139 ¾	132 ½	130	132	135	488	495	509	13 ½	35

The following securities are traded (average London market quotation in sterling in brackets): $2\frac{1}{2}\%$ Consols 1945/75 (£84); $3\frac{1}{2}\%$ Conversion Loan 1961 (£105); Funding Loan 1968/90 (£112); $3\frac{1}{2}\%$ War Loan 1952 (£102); 3% New War Loan (£102); 4% Victory Bonds (£113).

Gold Transactions

Further gold imports from Manila into Macao were reported; direct exports of gold from Macao into South China were effected, only small lots were shipped into Hongkong.

Gold shipments into China are protected by civil or military authorities who obtain benefits from the bullion traders and their transportation agents. Macao gold exports were also directed to Rangoon where an equivalent price of HK\$350 per tael was paid, leaving the gold dealer with a better profit than was locally realisable. The total export of gold from Macao to Burma was said to have aggregated 20,000 ozs.

Local prices were firm and about the same as quoted in Canton and Shanghai. The gold cross rates in US\$ work out here and everywhere in China at about US\$56/57 per troy oz, or US\$67/68 per tael. There is now little incentive for shipping gold to China as long as prices there do not improve.

Bank Note Markets

Little interest was evinced for pound notes which quoted around \$13. Piastres enjoyed a very good market, once jumping over \$14 on account of strong buying by especially Swatow merchants; these people ship rice out of Indochina (where import & export controls make the movement of rice a tough proposition) and into Siam from where they manage to get the staple into Hongkong. The political horizon in Indochina also appears much brighter and if the eventual settlement of the dispute there is near the I.C. Piastre should greatly appreciate here.

Nica guilders remain strong in a market which appears to be quite satisfied with the good progress achieved by the Dutch authorities in the East Indies. The Siamese baht was well maintained at around \$22 (for 100 baht).

Local Bankruptcy

The Tsen Ho Bank Ltd., a war growth of Chungking and established here about 10 months ago, closed down last week. The bank's failures are very heavy which were caused by unscrupulous speculation with clients' deposits and remittances obtained from overseas Chinese in the Far East. The banks and exchange shops affiliated with Tsen Ho in South China and Shanghai also suspended business. The victimised depositors and Chinese residents overseas will have to seek redress in the Courts of Hongkong and China.

HONGKONG CLEARING HOUSE

The clearing totals for the first seven months of 1947 of Hongkong Clearing House are as follows:—

January \$442,070,008 (4.4% over the clearings of December 1946); February \$460,807,509 (an increase of 4.24% over January); March \$464,164,534 (up 0.07%); April \$541,751,549 (up 16.72%); May \$642,913,034 (up 18.67%); June \$500,954,782 (a decrease of 22.09% against May); July \$628,312,553 (an increase of 25.4% over June, but a decrease of 2.3% as against May).

The decrease in June was due to a slight recession in general trade, reduced volume of business done on the local share market, and the technical position on the money market. In July the clearing total of over \$628 million shows the enormous expansion of business here as compared to one year ago when, in June 1946, Hongkong Clearing House recorded only \$236,118,933.

CHINA IMPORT QUOTAS

Following are the import quotas for commodities and raw materials as announced by the Chinese Import Control (Board for the Temporary Regulation of Imports) in Shanghai, covering the 3 months of August to October 1947.

Schedule II: Commodity Group	U.S. Dollars
1. Gasoline, Naphtha, Benzine	2,000,000
2. Liquid Fuel	7,000,000
3. Kerosine Oil	2,000,000
4. Cotton, Raw	20,000,000
5. Rice, Wheat & Wheat Flour	7,000,000
6. Leaf, Tobacco & Stalk ..	5,000,000
7. Jute, Raw	400,000
8. Gunny Bags	850,000
9. Coal & Coke	500,000
10. Metals	4,500,000
11. Chemicals	2,600,000
12. Paper & Wood Pulp	4,500,000
13. Timber	2,000,000
14. Wool & Wool Waste	2,000,000
15. Aniline Dyes & other Coal Tar Dyes, Indigo, Artificial; and Sulphur Black (including raw material for making Sulphur Black)	2,275,000
16. India-Rubber & Gutta-percha and Manufactures thereof	1,500,000
17. Oil, Lubricating	1,000,000
18. Grease, Lubricating	80,000
19. Oils, Fats & Waxes	820,000
20. Machine Belting & Hose, other than those made of rubber; Leather Belting ..	75,000
21. Tanning Extracts, Vegetable	108,000
22. Sulphate of Ammonia; Fertilizers; Chili Salt-peter	500,000
23. Artificial Silk Yarn	565,000
24. Pharmaceuticals	600,000
Total:	67,873,000

HONGKONG STOCK & SHARE MARKET

Most shares suffered further declines and buyers are holding off waiting for further reduced quotations. The turnover was small last week and the tropical heat has induced slumber among the otherwise very active speculating public. Recent quotations of many popular counters have been regarded as very high and some reduction in prices can only benefit the market as such. In the official week-end report of the HK Stock Exchange one could read between the lines that the brokers were not very confident of the tone of the market; the report said: "For the time being buyers have become not only selective, but also disinclined to encourage the profit-takers. This combination has arrested the upward move and a thinning down in prices, particularly among the favourites, is noticeable at the close." Translated from this jargon into colloquial it means that the market is dropping.

Govt. loans quoted ex interest \$106 and 101½. Banks were steady around 2,000. Insurance shares with exception of Underwriters (between 5 and 5½) weak. Shipping section, as usual, neglected. Wharves came to business at around 235, ex div. and cum rights. Docks closed weak at 41, Providents lost much ground, closing the week at 24½, and Shanghai Docks quoted around 16. Hotel shares were down to 24½ and there are still plenty sellers in the market. Lands old quoted 78, new 76, Shanghai Lands 3½, Humphreys 26, Realities 16½ sellers, and Chinese Estates only nominal 190. There was some interest in a few utilities; Trams eased off to 25/25½. Star Ferries 135/137, China Lights well maintained at 19 for old, 14½ for new shares, Telephones 49 old, 34 new.

The heavy buying of Electrics over the last few weeks culminated in the company announcing an issue of new shares in the proportion of 2 for 5 which will necessitate raising of new capital. Shares were done as high as 84 but receded to 80.

Industrials and Stores were weak, Dairy Farms opened the current week at 90 buyers, Watsons 61, Lane Crawford 55 sellers; substantial drops from the previous maximum prices. Ewo Cottons were up at 10½ but could not maintain this price, dropping at the opening of this week.

The shares of the Star Ferry Co. Ltd. and the HK & Kowloon Wharf & Godown Co. Ltd. were with effect from August 3 exempted from the Moratorium Proclamation.

THE BANKRUPT STATE OF LOCAL FINANCE IN CHINA

Huge Deficits of Provincial Governments— Vicious Monetary Inflation

The seriousness of the growing deficits in the budgets of the Central Government, the Provincial Governments and the District and Municipal treasuries has been stressed recently by many noted Chinese economists.

The bankrupt position of China's finances today defies all panaceas expounded by members of the Government or their advisers, wizards or no wizards.

The following study into the conditions of local finance in China has been translated from Chinese texts by the Bureau de Documentation (Economie Chinoise), of the French Jesuit University, Aurora, Shanghai.

A clear demarcation between central and local finances in China was first laid down in 1928 when the Chinese Government adopted a 3 grade financial system. In virtue of this system, the public finance of the country was divided into 3 grades: the central grade, the provincial grade and the district or municipal grade, each having its own receipts and expenditures; local tax revenues were centralised in the hands of provincial governments, to which district and municipal finances were subordinate. In 1941, a 2 grade financial system was introduced, the provincial being amalgamated with the central grade. In June 1946, the former 3 grade financial system, was resumed. The characteristic feature of this recent system has been that tax revenues of district and municipal governments have been considerably enlarged at the expense of provincial governments, with a view to laying a solid foundation of autonomous finance.

In recent years, the local finance of China, like its central finance, has been in a very critical state. Their common difficulty lies in the daily increase of expenditures and the almost equal diminution of regular sources of income. While this budgetary deficit has been a great handicap to the rehabilitation and development of both local and central finances in postwar China, it is more serious for the former than for the latter, since the Central Government can always issue notes and raise domestic and foreign loans to balance its budget, whereas no local authority is entitled to use such means.

For the above reasons it was decided at the Central Financial and Foodstuffs Conference of China, in June 1946, to introduce a three grade financial system in order to improve

the conditions of local finance. Unfortunately, as may be seen from the present general depletion of local finance throughout the country, this system has not produced the hoped for result.

I.—GENERAL DEPLETION OF LOCAL FINANCE

In order to present a true picture of the general depletion of local finance, a few instances from carefully selected provinces are given, going from the best-off to the relatively poorer ones and ending with a brief statement on the peculiar situation of Shanghai.

(a) Wealthy Provinces: Kiangsu and Chekiang

The total provincial receipts of KIANGSU for the second half of 1946 were CN\$10,690 million, while its expenditure totalled CN\$13,670, showing a deficit of approximately CN\$3,000 million. The aggregate annual receipts and expenditure of the various district and municipal governments of the same province for 1946, were both set down at the beginning of the year, at CN\$34,608 million. In June when the 3 grade financial system was introduced, it was expected that during the second half of the fiscal year, the receipts of the various district and municipal governments would increase by more than CN\$16,000 million. But as order had not been restored in many places in the north of the province, tax revenue could not be enlarged. Besides, owing to the continual soaring of commodity prices, the expenses originally estimated grew considerably, so that by the end of the year, hardly one district or municipality could manage to balance its budget. The situation is steadily worsening this year. The total income of the provincial government has been estimated (in millions) at CN\$33,500, whereas its expenses have been estimated at CN\$72,100; the uncovered expenses will therefore reach CN\$40,000 or 1.2 times as much as the amount of the estimated income.

Though the circumstances of CHEKING appear to be better than those of Kiangsu, its local finance has been in an equally awkward position. Before October 10th, 1946, a report of the provincial government of Chekiang estimated its total receipts (in millions) for the second half of that year at CN\$8,327 and its total expenditure at CN\$14,333, showing a deficit of 6,000. On account of subsequent reduction of land tax and an increase of the salaries of public functionaries the deficit had become CN\$14,646 by the end of the year. The aggregate receipts of the various district and municipal governments of the pro-

vince for July-December 1946 were first calculated at CN\$65,252 and their aggregate expenditure at CN\$92,310, the deficit being CN\$27,000. After measures had been taken to increase income and curb expenses, the deficit was finally cut down to CN\$14,000. The annual expenditure of the provincial government of Chekiang for 1947 has now been estimated at CN\$53,700 million; the estimated annual revenue has not been made public. It is generally believed that the budgetary deficit will be even greater than that of last year.

(b) Provinces of Medium Prosperity

The estimated income of the government of HUNAN for July-December 1946 was CN\$10,242 and its estimated expenditure CN\$17,900; resulting in a deficit of CN\$7,700 million.

During the same half year, the budgetary deficit of ANHWEI was CN\$6,500 and those of the various district and municipal governments totalled 5,000 million.

The budgetary deficit of the provincial government of KIANGSI for the same period was first estimated to CN\$5,900; afterwards, through reduction of government personnel and undertakings, the sum came down to 2,400. An estimate of the Accounting Department of the provincial government in November 1946, placed the budgetary deficit in 1947 at about CN\$12,000 million.

(c) Relatively Poor Provinces

The annual receipts of the provincial government of SHENSI for 1947 have been estimated, in millions of CN\$, at 43,740 and its annual expenditure, 60,420, the deficiency being about 16,600.

The estimated annual revenue of the provincial government of HONAN for 1947 has been reported at 10,000, as against an estimated annual expenditure of 60,000, showing the enormous deficit of 50,000.

No reports have been received concerning other provinces in this group but it may safely be said that their financial situation is not much better.

(d) Shanghai

The situation of Shanghai is not less gloomy. The budgetary deficit of this municipality for the second half of 1946 was first computed, in CN\$ millions, at 33,300. It was later abated to 22,300, when the municipal council of the city fixed the receipts at 55,100 and the expenditure at 75,400. The outlook for the current

year is definitely worse than ever. The annual revenue has been estimated at 242,800 and the annual expenditure at 441,000, the outstanding deficit reaching 198,200.

II. CONSEQUENCES OF THE DIFFICULTIES IN LOCAL FINANCE

(a) Lower Administrative Efficiency

As funds are rapidly exhausted, local governments in this country cannot but reduce their personnel. While a reasonable reduction of government personnel is an advisable step, it must be conceded that a certain limit should be observed. Beyond that limit, reduction of government personnel would mean a lowering of administrative efficiency. Unfortunately, this limit has not been respected by various local authorities who drastically shorten their employment list regardless of consequences. For instance, in the second half of 1946, the provincial government of Kiangsi simultaneously dismissed 1,200 functionaries.

When it is a question of curtailing expenses, departments of public welfare such as education, culture, hygiene and irrigation, have to be neglected and any undertaking which costs money must be suspended. Nowadays, it is commonly known that living allowance usually tops the list of expenses of the various local governments; next come administrative expenses; then provisional supply funds, and last of all, representing a very small proportion, funds appropriated to social welfare. Sometimes, these funds do not even appear on the budget. Thus, pressed hard by financial straits, the provincial government of Chekiang in the second half of 1946, decided to remove from its budget funds originally set apart for the support of village schools.

(b) Low Salaries and Corruption

Though in the past their salaries have been periodically readjusted and allowances in kind have often been granted to them, yet functionaries of the Central Government have all along been experiencing great hardship. One can therefore imagine how much worse are the living conditions of functionaries of local governments who are paid still less. The inevitable result is that in order to keep body and soul together, many of them cannot resist the temptation of exacting money and receiving bribes.

(c) Illegal Levies

In the new Law on the Financial Receipt and Expenditure System (July 2, 1946), it is explicitly stipulated that taxes may be collected according to the actual conditions of the various localities. This gives local authorities facilities to impose illegal levies disguised under different titles.

At present, in various districts in the Hupeh province, local "contributions" and "donations" have been listed among regular revenues on the budget. In reality, these so-called "contributions" and "donations" are nothing else than illegal levies. This year, on the budget of the district government of Chingmen, Hupeh, estimated annual receipts have been recorded as CN\$2,900 million; of this sum, CN\$1,460 million consists of the aforesaid contributions and donations, which thus form half of the total receipts.

Since the end of the war, there have been 276 different illegal taxes in the Shaohsing district of Chekiang. The total number of taxes levied there is over 300. In Kwangchowwan, Kwangtung, more than 170 kinds of tax are being collected.

Such disguised levies, however, do not noticeably improve the financial situation of the local authorities which practice them. As we have seen above, tax collectors who are poorly paid by the government, use the occasion to exact money and receive bribes. Consequently, the government cannot obtain more than 20 or 30% of what the people pay; the rest goes to private purses.

(d) Increased Dependence on the Central Government for Support

When curtailment of expenses and tapping of new sources of revenue do not ease their financial difficulty, local authorities are obliged to turn to the Central Government for help. Thus, the budgetary deficit of the Provincial Government of Kiangsu for July-December 1946, amounting to CN\$3,000 million as mentioned above, had to be entirely made up by the Central Government. In the current year, the same provincial government desires to obtain a subsidy of at least CN\$20,660 million from the Central Government, to meet its huge annual deficit. In the second half of 1946, the Central Government had to grant a subsidy of CN\$5,500 million to the Chekiang Provincial Government. For the same period, a subsidy of at least CN\$12,000 million was needed by the various district governments of the province. The various district and municipal governments of the Hunan, Kiangsi, Szechuan, Anhwei, Honan, and Hupeh provinces, also asked for help. This year, the Honan Provincial Government is said to be asking for a subsidy of as much as CN\$45 billion.

The Central Government being itself in difficulties is not in a position to give any substantial aid and what little amount of subsidy it can grant is not obtained through regular taxation but through a simple increase of note issue. This increase of note issue aggravates the monetary inflation and drives up the already high commodity prices. It is easy to see, therefore, that subsidies are by no means a final solution to the problem

but rather lead to a vicious circle, since high commodity prices again complicate and endanger the financial situation of the local authorities.

III.—CAUSES OF THE DEPLETION OF LOCAL FINANCE

(a) Inequitable Distribution of Tax Revenues

The new 3 grade financial system has introduced an unreasonable distribution of the revenue from taxes; the tax revenues of provincial, district and municipal governments have been lessened as compared with those of pre-war years. Before the war, 60% of the land tax and the whole of the business tax, revenue stamp duty, brokerage tax and pawnshop tax belonged to the provincial governments. Since the introduction of the 3 grade financial system last year, the only tax revenues for provincial authorities have been 20% of the land tax and 50% of the business tax. Conversely, the expenditure of provincial governments has considerably augmented, as large funds are now needed for post-war rehabilitation and reconstruction programmes.

At present, the taxes belonging entirely to district or municipal governments, are tax on houses, slaughter tax, business licence tax, vehicle licence tax, amusement tax and revenue stamp duty; taxes partially belonging to them are business tax, 50%, land tax, 50%, and inheritance tax, 20%. Though the sources of revenue may seem numerous, the actual tax receipts are in most cases inadequate to meet the huge expenditure.

(b) Inherent Shortcomings of Local Financial Administration

As democracy has not yet been put into practice in China, the people have no right to inquire into their local financial administration. Nowadays, local authorities are enforcing an ever increasing number of unreasonable financial or fiscal measures which, instead of relieving their financial difficulties, serve only to aggravate the situation.

(c) Unfavourable Political and Economic Conditions

Civil strife in China has caused a war expenses, the Government has been issuing more and more notes. The Chinese dollar is steadily Production in the areas where battles are raging, as well as in the neighbouring districts, is being greatly hindered; the inhabitants are being reduced to dire poverty and are no longer in a position to pay taxes.

On the other hand, to meet huge war expenses, the dollar is steadily depreciating and as a result the already meagre receipts of the various local authorities are losing any value they may have had.

REVIEW OF THE ECONOMY OF SIAM AND OUTLOOK FOR 1947

Siam's rehabilitation program fell far short of its mark in 1946, and major problems may for some time prevent consistent and orderly progress. Some advance was made, however, toward restoration of normal economic order in the country. Developments in the liberalization of trade restrictions and modifications in Siam's rice-procurement program offer cause for optimism.

Following discussions which lasted through the first 4 months of the year, a new Siamese constitution was adopted on April 30, 1946. In May a new customs tariff went into effect, whereby duties were increased on a large number of items for the purpose of increasing State revenues by an estimated 150,000,000 baht annually. Admitted duty-free, however, are such urgently needed goods and commodities as tools, implements, and various kinds of construction materials.

During the early months of 1946, before adequate banking facilities had been restored, foreign trade was conducted by the Government largely on a barter basis. Effective in May of that year, the Government fixed the exchange rate for the baht, or tical, at 100 baht=US\$10.075 and 40 baht=£1 sterling. Subsequently, banks were opened for foreign business and trade was restored to private channels, subject to various kinds of controls.

RICE CONTROL & PROCUREMENT

Perhaps the most serious drawback to Siam's recovery in 1946 was the breakdown in the rice procurement program and the consequent failure to meet commitments to export rice under international agreements. Internally there were many complexities, because of ramification in the trade in rice which patterns the everyday life and economic well-being of a majority of the 16,000,000 inhabitants. Externally, failure to export rice in sufficient quantities has meant that, in relation to demand, only limited amounts of foreign exchange have been available for purchase of goods and commodities abroad.

Because exports of rice (ranging from 1,250,000 to 1,500,000 metric tons annually, normally account for more than 50 percent of Siam's foreign exchange, the Government's trade and exchange controls were closely tied up with the rice-procurement program. For some time after private trade was resumed, all imports and the foreign currency to pay for them were under license, and exporters were required to surrender to the Bank of Siam proceeds from their sales abroad. This strict control was deemed necessary in view of the scarcity of foreign exchange and the desire of the Government to insure the importation of essential goods

and commodities rather than those which offered greater speculative opportunities. The Government needed the exchange derived from rice exports, but the fact that rice exporters had to surrender this exchange was one of the factors that served to militate against larger shipments. The whole control program, therefore, was balanced somewhat precariously between economic policy on the one hand and expediency on the other. For this reason, many control regulations were amended or canceled before Siamese traders had become accustomed to them, and in some cases before America and other foreign firms had received official confirmation of their existence.

THE RICE AGREEMENT

According to the Tripartite Pact of May 6, 1946, and the Anglo-Siamese Agreement of May 1, 1946, Siam agreed to make available for export, under the Combined Rice Commission, a total of 1,200,000 tons of rice by May, 1947. Terms of the agreement fixed the price of rice at £12 14s. per ton of 35-percent milled rice ex mill, and the price of paddy at 280 baht per ton of paddy equivalent of rice. The procurement program was based on voluntary surrender of paddy to collectors, who delivered it to millers, and the voluntary sale to Government authorities for export. The Government made its appeal for the surrender of stocks of paddy and rice on the basis of its commitments to export, a penalty for failure to comply having been provided in the agreements.

The whole rice program, however, was involved in difficulties on all sides. Farmers had long been without consumer goods, and cotton cloth was scarce. During the Japanese occupation, rinderpest had attacked draft animals, many of which had died. Simple hand implements and tools needed to be replaced. Although Siam had probably produced enough food for its own use during the course of the war, acreage under paddy cultivation decreased sharply. At no time was there complete disruption of transportation, but many rail and water facilities had been destroyed or displaced.

Farmers needed money because prices of virtually all goods and commodities, including the local prices of rice, had soared out of bounds, while control prices of paddy remained unrealistically low. Adequate supplies of cotton cloth and consumer goods might have constituted sufficient inducement for paddy growers to turn over stocks, but, in view of limited amounts of foreign exchange and the tight position of cotton textiles throughout the world, these could not at first be provided.

GOVERNMENT AND THE BLACK MARKET

Farmers, therefore, could not be expected to turn in paddy stocks willingly through regular channels, when it was far more lucrative to dispose of them through the black market. With proceeds of black-market sales, they could make more effective bids for the scant supplies of desired goods which were procurable at high prices. As a result, efforts to requisition paddy were not entirely successful.

In attempts to meet commitments to export, the Government encouraged farmers to cultivate maximum acreage, offering various kinds of assistance. Besides extending some financial aid, authorities distributed seeds for planting, improved and increased the supply of livestock for draft purposes, and provided free, or at nominal costs, simple farm implements procured in India. The area under paddy cultivation was estimated at from 18,000,000 to 20,000,000 rais (2.5 rais=1 acre), compared with 22,000,000 rais in 1938-39 and less than 10,000,000 in 1941. Of the area planted in 1946, more than 3,000,000 rais were severely damaged by drought and pests, so that acreage actually harvested was considerably smaller.

Transportation was inadequate during the late spring and summer months, but with procurement of cars, trucks, and locomotives in India and the reconditioning of highways and railroads, land facilities showed considerable improvement. Despite more than 4,000 kilometers of railroads, and a fairly adequate system of feeder roads, most of the country's rice normally moves to market and to milling centers, as it has since time immemorial, by grain barges along the sluggish rivers and waterways. More than 1,000 barges were destroyed during the war, and it was some months before replacements could be made. By October 1946, observers were of the opinion that transportation was no longer a real problem.

The matter of procurement was not solved when rice had been milled, for control price of rice offered little incentive to millers to turn over stocks to Government account. Everything in milling centers, particularly in and around Bangkok, brought peak prices. Always present, therefore, was the temptation to dispose of rice through the black market, and many cargoes were loaded into small craft lying beyond the Menam bar. These shipments would bring a much higher price in other Asiatic countries which were critically short of rice. In consequence of these and other factors, exports of rice were consistently behind the schedule that had been set up to meet commitments. By January 1, 1947, less than 400,000 tons had been shipped.

RELAXATION OF CONTROLS

During the summer and autumn of 1946 exchange and trade controls were modified a number of times. The prime necessity to build up foreign exchange to the Government's account did not preclude the expediency of releasing exchange for purposes of stimulating rice movement and business transactions in general. Several inducement schemes were tried, whereby exporters of certain commodities were permitted to retain a percentage of foreign-exchange proceeds to pay for imports. Sale of nearly 8,000,000 grammes of reserve gold to the Federal Reserve Bank in New York provided a dollar account against which Siamese importers could draw credit for the import of certain priority goods. A decision to forbid the use of capital holdings abroad to pay for imports was reversed, under pressure of various business and importing groups.

As the late autumn drew on, it was evident that drastic changes were necessary in the rice-procurement program and in control of trade and exchange. Finally, on December 24, the international agreements regarding rice exports were modified, and on January 20, 1947, Siam's foreign-exchange and trade regulations were substantially liberalized.

According to the modifications of the Tripartite Agreement of May 6, 1946, and the Anglo-Siamese Agreement of May 1, 1946, the old target figure of 1,200,000 tons of rice to be furnished by May 1, 1947, was replaced by a new figure of 600,000 tons for export between January 1 and August 31, 1947. The penalty provision, applicable in the event that Siam cannot meet commitments, would be effective only from September 1947, and then only with reference to the new target figure of 600,000 tons.

PRICE ADJUSTMENT

There was established also a new basic price effective January 1, 1947, for 35-percent milled rice ex mill at £20 per ton, an appreciable increase from the former price of £12 14. per ton. In pursuance of this policy, the Government fixed a price of 440 baht (about US\$44) per ton of paddy equivalent of 35-percent milled rice, against the former price, the equivalent of US\$28.

An export tax of £4 per ton was agreed to be paid to the Government of Siam by the purchaser in sterling or dollars at the option of the purchaser. The proceeds of this tax are set aside in a special fund (separate from normal revenues of the Government), to be used for such purposes as may be agreed upon by the Siamese Government and the Combined Siamese Rice Commission. Suggested uses include the encouragement of greater paddy production, and supplying funds to enable rice for domestic consumption to be sold at, or in the neighbourhood of, the control price if necessary.

While the new procurement program started off slowly, results by late February were gratifying. Ar-

rivals of paddy in Bangkok were then running from 3,000 to 5,000 tons daily, and permits issued by provincial commissioners for movement of paddy and milled rice doubled each week during the first 3 weeks of the month. Authorities estimated that 75,000 tons of rice might be available in March and 100,000 in April. April reports indicated that arrivals of rice and paddy in Bangkok during the month of March totaled approximately 96,000 tons, but it was expected that the flow would slow down in view of the imminent dry season. Shipments during March amounted to only 33,873 tons, according to the Combined Rice Commission, with largest amounts going to British Malaya. Shipments of rice from January 1 through May 31 amounted to 200,250 tons, not counting 4,600 tons, shipped under the inducement scheme and 5,700 tons of Chinese free-gift rice for China.

RICE RATIONING

Early in 1947 the Government decided to introduce a system of rice rationing in Bangkok, in view of the failure of previous plans to effect an equitable distribution of rice at reasonable prices. While the rationing system met with considerable opposition from the Chinese rice merchants, it is being continued and recent reports indicate a fair parity between the Government control price and prevailing local prices.

The Government has not relaxed its efforts to stimulate rice production. Since proceeds of the export tax on rice may be used to procure consumer goods for distribution to farmers, efforts have been made to increase supplies of these goods. Farm implements, mainly hoes of the type used by Indian farmers, have arrived and have been distributed in some quantity. United States Army entrenching tools, acquired by the Siamese Government under the credit extended by the United States to purchase surplus military supplies, have also been put in hands of the farmers. A second consignment of about 4,000,000 yards of cotton cloth was received from India, and a third lot is scheduled to have arrived. Siam may receive 25,000,000 yards of cotton goods from Japan, and more than 11,000,000 yards have already been delivered. Cotton cloth is designed to be a specific incentive, since it is granted to farmers agreeing to place additional acreage under cultivation.

The aim for acreage under rice cultivation in 1947 is 24,000,000 rais, and trade sources report that about 20,000,000 rais have been planted, some 5 percent of which has been damaged by adverse weather or insects.

SIMPLIFIED & LIBERAL CONTROL

Of equal importance with the change in the rice-procurement program was the liberalization of trade and exchange controls, effective January 20, 1947. At that date, the export-import control licensing system was abolished, and the Foreign Trade Regulation Board dissolved, all remaining controls being under

direction of the Bank of Siam. Import licenses were eliminated, except for such items as arms and drugs, which have always been subject to special license. Permits to export became no longer necessary, except for rice, rubber, teak, and tin. Exporters of rice were to receive special inducements (currently permission to utilize 10 percent of foreign exchange derived from exports), while exporters of teak, tin, and rubber were granted 50 percent of the proceeds in foreign currencies, which they might use to pay for imports or might transfer once to other importers. The remaining 50 percent of foreign currency goes into a central exchange pool, its equivalent in baht being paid to the exporter.

A telegram just received from Bangkok states that the Siamese Cabinet decided on June 11 to liberalize further restrictions on the exportation of rubber. Exporters of this commodity are now free to utilize 80 percent of their foreign currency proceeds, the Government's share having been reduced to 20 percent.

Exchange from the central pool is made available at official rates for procurement abroad of only priority goods. Included in the "first-priorities" list are general goods urgently needed for Siamese production, industry, or transportation, or for essential Government requirements; milk, milkfoods, and sugar; petroleum oils and greases; agricultural tools and certain other metal products; locomotive, mining, rice-milling, road-making, sawmill, and other machinery; certain classes of vehicles; paper; textiles; and certain miscellaneous goods, such as batteries, containers, and radio receivers.

Banking procedures were simplified with the announcement on March 20 that authorized banks would be permitted to export foreign currency, foreign exchange, and letters of credit without permission from the Minister of Finance.

THE TIN AGREEMENT

Another step, taken late in 1946, pointed to the relocation of one more important factor in Siam's economy. Under the International Tin Regulations, Siamese production of tin-in-ore had increased to more than 16,000 tons before the war, and when the country was occupied by the Japanese considerable stocks were on hand. While annual production during the course of the war was appreciably below the 1940 figure, it was not negligible. British and Australian mine owners and operators (prior to the war Siam had been content to have foreigners develop the mineral production) sought compensation for loss of this production and stocks on hand when war came. While no great physical damage was sustained by mines during the war, beyond looting and displacement of parts and supplies, there were many administrative and procedural problems to be ironed out before tin production could be resumed on any important scale.

Finally, on December 7, 1946, arrangements were made to compensate British and Australian owners and operators for losses sustained by them, and a short-term agreement was reached with Great Britain, Australia, and the United States, which intended to facilitate the exportation of tin from Siam.

Main provision of the tin agreement specified that a four-member commission would be named to aid the movement of stocks of Siamese tin and tin concentrates into world trade channels; Siamese metal would be shipped in compliance with the Combined Tin Committee allocations; the United States would be allocated 2,000 tons of tin metal for 1946 and would probably secure additional quantities in 1947; Siamese stocks of tin concentrates and new production would be purchased in equal amounts by the United States and the United Kingdom. Prices paid for Siamese tin would be on a basis equivalent to prices in Malaya, then £370 but since raised to £426 ex smelter. This agreement, originally effective to March 31, 1947, was subsequently extended to June 30.

THE TEAK INDUSTRY

Administrative and procedural problems likewise faced the Siamese teak industry. While teak has for many years been an important source of revenue to the Siamese Government, the teak industry was developed largely by foreign capital. When war came, approximately 36 percent of Siam's teak production was in the hands of European companies, chief among which were four large British companies, one Danish, and one French. The remaining portion, with the exception of about 1 percent held by the Siamese Forestry Department, was held by individual Siamese.

During the war, reportedly, the leases were operated by a semi-official company, which controlled the assets of the foreign companies and organized new extraction. The problem of claims of foreign companies, therefore, arose at the time of liberation; and negotiations opened between the lessees and the Siamese Government.

During the early months of 1946, there was an export ban on teak, in view of the fact that Siamese needs had not yet been adequately appraised and banking facilities for the conduct of foreign trade had not been restored. In May, the export ban was eased, shipments remaining subject to export license and exchange control, and the first postwar exports were made from stocks held by Siamese operators. Shipments continued in the ensuing months, despite the fact that negotiations were continuing between the Government and the major teak companies. Exports for the year through the port of Bangkok (which represented a major part, if not all, of total exports) were valued at more than 29,000,000 baht.

THE TEAK AGREEMENT

Finally, on December 21, 1946, the lengthy negotiations concerning war damages and losses of British companies drew to a close, with the signing of an agreement between the Siamese Government and the British teak lessees. The agreement provided, among other things, for the return of the lease to the lessees, along with all immovable and tangible assets situated outside the Province of Bangkok and in their possession on December 7, 1941, and held in connection with the teak business. It provided also for the return of teak logs originating from areas covered by the leases, and for the replacement of lost or damaged teak trees equal to those to be replaced.

Replacement of teak trees was one of the main points calling for lengthy discussions. The lessees reportedly expected cash payment for the trees lost or destroyed, while the Siamese felt that in such a case their frozen sterling assets should be applied.

It has been reported through trade channels that the four large British teak companies would recover their forest holdings in June 1947, in accordance with the December agreement. It is understood that during the early months of the year, the Teak Agency, a combined organization representing the four companies, conducted a resorting of logs in various localities, following which at least two new sawmills would begin full-scale operations. Relaxation of exchange controls on January 20, whereby teak exporters are now free to use freely 50 per cent of foreign-exchange proceeds to pay for imports of goods of any kind, should also prove a stimulant to the entire teak industry.

PROBLEMS OF RUBBER PRODUCTION

Problems facing Siamese rubber producers were not nearly so complicated as those facing the country's other major export industries. Beyond clearing rubber areas of weeds and vines, providing tapping tools, and procuring coagulants from abroad (when war ended there were virtually no coagulants in the country), physical rehabilitation of Siam's 440,000 planted acres was relatively simple. Since the larger part of Siam's rubber output is from native small or plantation holdings, there were no large-scale administrative and procedural matters to settle.

Rubber production decreased from more than 50,000 tons of 1940 to 2,000 tons in 1946. Exports, which had reached more than 46,000 tons in 1941, dropped to zero in 1944. Of the more than 200 large estates (each with planted area in excess of 100 acres), only a few were in continuous production during the war, although no actual war damage was sustained. Unlike rubber growers in some other

Asiatic areas, Siamese producers made little effort to accrue rubber stocks, which, at the end of hostilities, might have provided an important source of foreign exchange. Production in 1946, which started off slowly, reached approximately 20,000 tons, and current estimates for 1947 are from 50,000 to 55,000 tons.

Trade sources indicate that rubber shipments in 1946 amounted to 13,654,650 kilograms (14,440 long tons) valued at 45,124,137 baht. United States figures show that during 1946 the United States imported 7,400 tons of Siamese rubber, and that shipments arriving during the first 4 months of 1947 amounted to slightly more than 3,100 tons. In 1946, British Malaya recorded imports of 10,636 tons of Siamese rubber, while nearly twice that amount, or 20,237 tons, arrived during the first 4 months of 1947.

One of the early decisions of the new Siamese cabinet, which followed closely upon the vote of confidence it received from the Congress, was to take steps to stimulate rubber production, in addition to liberalizing controls on exports of this commodity.

The rubber market in Bangkok recently experienced a slump, prices of first-grade rubber having dropped appreciably during the first 2 weeks in June. The slump in the market is attributed in part to world rubber prices, which are determined in large measure by the Malayan market. While a "free rubber market" has been restored in Malaya, exchange-control restrictions, with which the rubber market is closely tied up, have not been liberalized.

OUTLOOK FOR BUSINESS

Obviously, the restoration of some degree of order and plan in the country's four important industries does not dispose summarily of all of Siam's postwar economic problems, nor does it indicate the full measure of progress recorded in the first year and a half of peace. Prices are high, living costs being estimated by some sources at 13 times those in 1939; there is widespread black-market activity, not only in goods and commodities but also in foreign currencies; smuggling has been taking place on a large scale, particularly in rubber and rice; cases of various kinds of lawlessness have been in evidence among all classes; and there has been considerable criticism of the application of the trade and exchange control system.

The way has been prepared, however, for increased exports of Siamese goods, which should make possible procurement abroad of materials and goods for further improvement of the country's transportation systems, for work on harbour and port installations, and for construction of plant equipment needed to increase the country's production of a wide variety of products. As urgent needs of the Government are met, more ex-

THE CONSTITUTIONAL POSITION IN BRITISH MALAYA

Of all of the Far Eastern colonial territories recaptured after the recent war, Malaya alone exhibited little desire for constitutional change; it wished only for a return to the old days. In planning the final stages of the Pacific war, however, the Allies had selected Malaya as a base from which to attack Japanese positions in Asia, and in order to stabilise the Malayan base as effectively as possible, they had decided that a strong central government should be established in the country after its recapture. Since Japan capitulated before the Allied return to Malaya, there was no need, as far as immediate military considerations were

concerned, for constitutional changes. Nevertheless, in October 1945 the British government announced its plan for a "constitutional Union of Malaya."

The manner in which the proposals were put to their Rulers upset the Malays, and very shortly national agitation arose in opposition to the plan. Leaders in the agitation were priests and schoolmasters, who saw in the proposals a threat to Malay prestige and power, and hence to the Mohammedan religion and Malay culture. Their criticism was echoed by Europeans who had held high office in Malaya and who believed that Malays should hold the power in their own country.

change, at the official, favourable rates, can be made available to importers—restive under even the modified controls in effect at present. As goods are received, the tendency to utilize unauthorised channels to dispose of commodities and procure goods for speculative purposes may be expected to decrease. Prices of cotton textiles have recently dropped more than 30 percent, because of shipments which have arrived in some quantity. In normal times, Siam maintains a favourable balance of trade and runs its domestic affairs on a sound financial basis. Most of the factors in this sound financial structure are integrated with the production, trade, and export of rice, rubber, teak and tin.

Siam's ability to buy goods and commodities in 1947 depends more directly on its ability to export tin, teak, and rubber than on its rice program. With the exception of dollars received for exports of rice to the Philippines, the major share of foreign-currency proceeds from rice shipments is realized in sterling. While the export tax of £4 per ton is payable in either sterling or dollars, several countries which are important buyers of Siam's rice prefer to use sterling, retaining dollar exchange for their own purchases in the United States.

In 1946 more United States commercial goods went into Siam than ever before in any preceding year, in addition to appreciable supplies of military surplus materials procured under the loan arrangement. Siam's dollar position was enhanced by more than \$8,000,000 through the sale of gold to the Federal Reserve Bank in New York. Except for occasional measures of this sort, taken in time of urgent need to procure dollar exchange, that country's ability to buy will depend largely upon its ability to sell its goods, chiefly tin and rubber.

Foreign trade statistics of Siam were published in our issue of June 18, page 92, regarding the year 1946, and in our issue of July 30, page 241, regarding the returns for the month of January 1947.

In May and June 1946, at the suggestion of the then Secretary of State, the author and his Parliamentary colleague, Captain L. D. Gammans, M.P., toured Malaya in order to sound out national sentiment. In every hamlet, village and town that we visited we were met by what appeared to be the whole of the population. For the first time in their history, the Malays had become politically conscious. Women spoke at public gatherings and attended public banquets. The culmination of our tour took place at the Sultan of Perak's palace in Kuala Kangsar, where we met the eight Rulers, the Regent of Johore and representatives of the United Malaya National Organization and of the Malay Nationalist Party.

Even at the time these two Malay bodies held somewhat different views. Although the United Malay National Organization was a conservative group which desired to return to the old system and defended State against federal rights, its leaders realised the necessity for a strong central government, and they were quite prepared to participate in it as long as the feelings of the Malays were placated and the interests of the States recognised. The Malay Nationalist Party was and is inspired by republican principles, and favours union, eventual removal of the Rulers, and reduction of State powers. It also supports the Indonesians and Indo-Chinese in their struggles for freedom. Both parties objected to the way in which the constitutional issues had been handled.

In response to our request, the Rulers and the U.M.N.O. representatives agreed to meet the Governor General and the Governor of the Malayan Union, whom they had hitherto boycotted. Subsequently a Working Committee was appointed at a conference of the Governor of the Malayan Union, the Rulers of the Malay States and the representatives of U.M.N.O. This Committee sat from July onwards and issued a report in December. In framing its recommendations the Committee bore in mind the need to establish a strong central government, to secure the individuality of each of the Malay States

and Settlements, to afford a form of citizenship for those who consider Malaya their home, to safeguard the special position of the Malays as indigenous inhabitants, and to ensure the financial stability of the country.

The Committee recommended the establishment, under the protection of Great Britain, of a Federation of Malaya, consisting of the nine Malay States and the Settlements of Penang and Malacca. It suggested that power be reserved to His Majesty's Government and to the Rulers to admit, from time to time, any other territory within this Federation. His Majesty's Government are to have complete control of defence and external affairs. There is to be set up a central government comprising a High Commissioner, who will have a dual function: in matters of defence and external affairs he will act as a representative of His Majesty; in other matters he will act in pursuance of authority delegated to him by His Majesty and the Rulers. The Rulers will accept his advice in all matters of government excepting those relating to the Mohammedan religion or Malay customs. In the exercise of his executive powers the High Commissioner will have certain special responsibilities with reference to the position of the Rulers and that of the Malays, the rights of the States, and the stability of the federal government. There is to be a federal executive council, consisting of official and unofficial members appointed by the High Commissioner. There is also suggested a federal legislative council, consisting partly of official members and partly of unofficial members, who will in turn be appointed by the High Commissioner and will represent various interests such as labour, planting, mining, commerce, etc. Except insofar as the Malays and Europeans are concerned, representation is not to be allocated on a racial basis, but the labour representation is intended to include non-Malays.

The report contains detailed suggestions regarding the position of the Rulers and for a conference of Rulers which will meet whenever necessary and at least three times a year, the High Commissioner being present. Every Ruler will receive, before publication in the Gazette, a copy of every Bill to be presented to the legislative council. There is provision for the establishment of a court of civil and criminal jurisdiction, consisting of a high court and a court of appeal. A model State agreement is appended, and every Ruler undertakes to promulgate a written constitution for his State in conformity with this agreement. In every State there will be an executive council to advise the Ruler in the exercise of his executive functions, and a council of state, which is, in effect, a legislative council. In the vexed question of citizenship, it is proposed that citizenship shall not be regarded as nationality; it will not affect the status of British subjects in Malaya, or the status of subjects of the Rulers, since it is intended to be an addition to and not a subtraction from nationality. The form of citizen-

ship proposed is an automatic acquisition by persons who have been born in the territory or have certain residential qualifications, or whose fathers had certain residential qualifications, in the country. There is a further provision for the acquisition of federal citizenship upon application by persons who have resided in Malaya for not less than 15 of the previous 20 years, possess certain other qualifications, and are prepared to take the oath of citizenship.

In spite of some misgivings on the part of the Malay Nationalist Party, we may take it that these proposals are broadly acceptable both to the British government and to most Malays. The next stage is to elicit the views of the other races. When the author was in Malaya in 1946 the Chinese and the Indians took little interest in the constitutional question. There was a Malayan Democratic Union, membership in which, while open to all races, was in fact mainly Chinese and small in any case. It sought self-government within the British Commonwealth, a legislative assembly for Malaya composed of freely elected representatives, suffrage for all Malayan citizens above the age of 21 and certain reforms. More recently the Chinese and Indian communities have been showing greater interest in the constitutional issue. For example, the Malayan Democratic Union has supported the government's plan, although it has been very tactful in not obtruding its views lest it irritate the Malays and thus create friction in the country.

Initially many of the Chinese felt that, as birds of passage, they need not take much interest in the constitutional issue so long as their economic position in Malaya was maintained. The Indians felt much the same, especially after Mr. Nehru's visit, when he told them that if they wished to become Malayan citizens they would have to surrender Indian nationality. The intense Malay propaganda, however, has had its effect in counter-propaganda among the other races. Their view is that their peoples have done much to develop the country and to obtain the social and educational advantages now enjoyed by all races. It is to be hoped, however, that if the Chinese and the Indians conclude that their economic position is safeguarded and that the way is open for a steady progress toward self-government, as indeed it is, they will accept the scheme proposed by the Working Committee. They may, in fact, rejoice that many of the constitutional difficulties are past and that Malaya can now proceed confidently into the future.

While this is true of the majority of the Chinese and Indian residents, it must be remembered that there is a minority of both races, of long standing in the country, which is occupied mainly in trade and commerce. This minority believes that it should have something to say about the constitutional issue. Recently a Council of Joint Action, comprising representatives of 11 left-wing political bodies

and communal associations, was created in Singapore. Its expressed object is "to provide the machinery for the various communities, through their organizations and associations, to reach agreement on all points connected with the future constitution of Malaya, thus avoiding the dangers of separated and self-interested representation." The first meeting, held on December 14, 1946, and sponsored by the Malayan Democratic Union, the Malay Nationalist Party, the Regional Malay and Indian Congress, and Mr. Tan Cheng Lock, the Chinese leader for Malacca, was said to have been initiated "as a result of widespread feeling that the domiciled Malayan communities should be prepared to join hands in submitting proposals on the future Malayan constitution."

At about the same time the first anniversary of the Malayan Democratic Union took place. The Vice-President, Mr. John Eber, said that "the Party did not seek to become a mass organization, but aimed at enrolling active members who were prepared to devote their time and energy in support of the Party's policy. Another aim was to lead the politically inactive middle-class to a realisation of the need for Malaya to build up a Party representative of all Malaysans."

The Council of Joint Action appears, therefore, to consist of a mixed bag of Malays disgruntled with the major Malay Party, middle-class Chinese and representatives of other communities. It represents the urban against the rural interest, the federal against the State interest, republicans against constitutionalists; there may be even some communist influence in it. Not only a mixed but an uneasy bag, unlikely to hold together under strain.

The proposals of the Working Committee were published on December 24, 1946, together with a note by the Governor of the Malayan Union; this note stated specifically that His Majesty's Government, in giving their conditional approval to the proposals, have declared that "there can be no question of their reaching any final decisions on any matters involved until all the interested communities in Malaya have had full and free opportunity of expressing their views." In conformity with this declaration a committee, consisting mainly of influential non-officials from the Malayan communities, has been set up with the object of discovering the views of the various communities, interests and individuals throughout the peninsula. His Majesty's Government will study these views with the greatest care. The government's opinion is that the proposals made by the Working Committee establish the essential foundations of an advance towards self-government, namely, constitutional unity and a bond of common loyalty uniting all those who really feel that they belong to the country. Once the foundations have been laid, then representative government will proceed with all possible speed; but haste is not speed, and a solid foundation is eminently desirable.

Thus the matter now stands. The committee appointed to take the views of the various communities is trying to do so. The Malay Nationalist Party has declared that the plan is unacceptable, that the suggested sovereign status of the Rulers is a mockery and shameless pretence, and the U.M.N.O. should not be the sole nominating body for Malays. The Council of Joint Action has threatened to stage mass demonstrations to prove that it should be the only representative body in the negotiations. Chinese commercial associations are meeting to formulate their views, as are representatives of the Indian communities. It is to be hoped that there will be no great delay in arriving at a settlement of this question.

D. R. Rees-Williams

REVISED CONSTITUTIONAL PROPOSALS

Revised proposals for the establishment of a Federation of Malaya were announced in a Command Paper in London on July 24, 1947.

Main points of the revised proposals are:

A new Order in Council, replacing the Malayan Union Order in Council of 1946, will provide for the government of the British Settlements of Penang and Malacca and give legal force to a Federation Agreement to be made between His Majesty and the Rulers of Perak, Selangor, Negri Sembilan, Pahang, Johore, Kedah, Kelantan, Trengganu and Perlis. New Agreements will also be made between His Majesty and the Rulers of each State.

Subject to the provisions of the Federation and State Agreements, the prerogatives of each Ruler will be those he enjoyed prior to the Japanese occupation and His Majesty will have jurisdiction in the States only as regards external affairs and defence.

Central Government

A Federation Agreement will establish under the protection of Great Britain, a Federation of Malaya consisting of the nine Malaya States and the two British Settlements. The Agreement provides for the inclusion of any other territory by agreement between His Majesty and the Malay Rulers. The Central Government of the Federation will comprise a High Commissioner appointed by His Majesty, a Federal Executive Council and a Federal Legislative Council. The Federation Agreement will record the desire of the Signatories that, as soon as circumstances permit, legislation should be introduced for the election of members to the several legislatures. A Schedule to the Agreement will contain a list of matters on which the Federal Legislative Council will be empowered to legislate. The list will cover a field wide enough to ensure a strong central government in all matters of importance to the progress and welfare of the country as a whole.

Special responsibilities of the High Commissioner will include the protection of the rights of, and the prevention of any grave menace to, the States and Settlements; the safeguarding of the financial position of the Malays; and the exercise of the prerogative of pardon in respect of the Settlements. He will be empowered to delegate Federal Executive functions to Settlement Governments or, with the consent of the Ruler concerned, to Governments of States. The High Commissioner will have "reserved power" to give effect to any Bill which the Legislative Council fails to pass in reasonable time and which he considers to be necessary in the public interest.

Federal Councils

The Federal Executive Council will be presided over by the High Commissioner as President, three ex-official members, not less than four official members, and not less than five or more than seven unofficial members, two or three of these as the case may be to the Malays.

The Federal Legislative Council will comprise the High Commissioner as President, three ex-officio members, 11 official members, the nine Presidents for the time being of the Councils of States in the Malay States, two representatives of the Settlement Councils (one from each Council) and 50 other unofficial members nominated to represent interests, groups and activities. It is estimated that these arrangements (which it is intended should be replaced by elections at an early date) will result in a distribution as follows: Malays, 22; Chinese, 14; Indians, 5; Europeans, 7; Ceylonese, one; Eurasians, one.

Malay Rulers

A Conference of all the Rulers will be established under the chairmanship of one of their number. It will meet whenever necessary and will meet the High Commissioner at least twice yearly. It will be the duty of the High Commissioner to explain to the Rulers the policy of the Federal Government on matters of importance to the Malay States and to consider their views.

A principal matter on which the High Commissioner and the Rulers will confer will be immigration. Should any major change in immigration policy be contemplated by the Federal Government, and a majority is not reached between them and the High Commissioner, the proposal is to be referred to the Federal Legislative Council to confirm or reject by resolution on which voting would be confined to unofficial members. This special procedure will not be applicable where Defence or External Affairs are involved.

State Councils

A State Executive Council and a Council of State with legislative powers will be established in each State. Rulers will undertake to promulgate as soon as circumstances permit a written Constitution for

The business outlook in the Netherlands Indies is not too favourable because of failure of the Dutch and Indonesians to agree on measures for prompt implementation of the economic provision of the Linggadati Accord. Despite an auspicious start, no practical steps had been taken in matters of such vital importance as the return of non-Indonesian plantations in Java and Sumatra to their rightful owners and immediate renewal of trade with those islands.

The current hostilities may issue in a more stable solution and resumption of commerce.

Because the commerce of Java and Sumatra forms the keystone of the archipelago's economy, there can be no substantial business recovery without a revival of production and exports in those areas. Delay involves losses and wastage, decline of productive capacity, an accumulation of unproductive expenditures, and deterioration of an already critical exchange position. Since the Japanese surrender, unsettled political conditions have obstructed recovery, and each successive month further impairs the country's economy, rendering rehabilitation more difficult.

their States in conformity with the Federation Agreement. In the event of a difference on an important matter between a Ruler and the Federal Government the Rulers undertake to accept the advice of the British Adviser in each State in State affairs and of the High Commissioner in Federation affairs. In both cases this will exclude matters relating to the Muslim religion or the custom of the Malays.

Federation Agreement provides for inclusion of Penang and Malacca and their administration in such manner as may be prescribed by Order-in-Council.

Federal Citizenship

A form of Federal citizenship has been designed to draw together with a common loyalty all those who can be said to regard Malaya as their true home and the object of their loyalty. Citizenship may be acquired either automatically or on application.

(a) The following persons will automatically be Federal citizens:

- (i) Any subject of the Rulers,
- (ii) Any British subject, born in either of the Settlements who has completed a continuous period of 15 years residence anywhere in the Federation territories,
- (iii) Any British subject born in the Federation territories, whose father

Weakness of the guilder and Republican rupiah reflected this unfavourable situation, as did the further curtailment—despite a dire need for imported commodities of all kinds—of orders placed abroad. Production of plantation commodities remained virtually at a standstill, and the volume of exports continued at a very low level. In recent months exports have averaged 43,000 tons, as compared with an average of 959,000 tons of produce shipped from the archipelago monthly during the 3 prewar years 1937-39. With allowance made for illegal trade between Malaya and Republican territory, the archipelago's exports still represent only a small fraction of their prewar volume. Imports (exclusive of military supplies) have recently amounted to about one-third of the prewar volume, which is equivalent to about one-half the dollar value of the prewar imports.

Copra

As a result of special efforts to expedite copra shipments, exports of this product were relatively large in April, totaling some 23,300 metric tons. Shipment of surplus stocks which had accumulated in East Indonesia, has been completed, and it is not expected

either was himself born in the territories or who has resided therein for a continuous period of not less than 15 years,

- (iv) Any person born in the Federation territories, who habitually speaks the Malay Language and conforms to Malay customs,
- (v) Any other person born in the Federation territories, both of whose parents were born in the territories and have been resident there for a continuous period of not less than 15 years,
- (vi) Any person whose father is, at the date of that person's birth a Federal citizen.

(b) Citizenship may be acquired on application by any person who satisfies the High Commissioner (i) that, either he was born in one of the Federation territories and has been resident in the Federation territories for not less than eight out of the 12 years preceding his application, or he has been resident in the Federation territories for not less than 15 out of the 20 years preceding his application and (ii) that he is over the age of 18, possesses an adequate knowledge of the Malay or English language, has made a declaration of permanent settlement and is willing to take the citizenship oath.

that copra exports will exceed 10,000 tons in May. During the third quarter, larger quantities will probably become available, so that exports may reach a peak of 20,000 tons in July and August, normally the heaviest shipping season. Informed sources believe, however, that exports of copra in 1947 will not exceed 180,000 tons.

The first shipment of palm-oil to be made since the war left Medan, Sumatra, in April, and totaled 1,200 tons, destined for the Netherlands.

Rubber

Purchases of rubber by the Netherlands Indies Rubberfonds (NIRUB) amounted to 2,390 tons in April, compared with 3,947 tons in March and 4,989 in February. Exports of rubber, however, increased from 2,500 tons in March to 7,272 tons in April. The latter shipments included 4,000 tons confiscated by Netherlands Naval patrols from small vessels attempting to smuggle it to Singapore.

Tin

Production of tin during April amounted to 1,549 metric tons (in terms of tin content), the largest monthly output since the war. Because of lack of shipping space, however, only 664 tons were exported, compared with shipments averaging 1,453 tons during the 5 preceding months. Strikes which have occurred at some of the mines are believed to have curtailed output in May. Four new dredges are expected to be in operation by the end of the year, increasing production to about 40 percent of prewar level, or approximately 20,000 long tons (tin content) a year.

Foreign Trade

The most recent comprehensive figures of foreign trade are those for January 1947. During that month commercial imports into areas held by the Dutch were valued at 27,072,486 florins. The United States was the largest supplier, accounting for 31 percent of the total, followed by the United Kingdom with 19 percent, the Netherlands 18 percent, and Singapore 8 percent. NIGIEO, the government trading agency, handled 52 percent of the imports, the remainder being imported by private firms. In September, only 4 months earlier, NIGIEO was still handling 91 percent of the import trade. Although it is evident that progress is being made in returning import trade to private channels, private firms nevertheless operate under strict government control, through the medium of import licenses and exchange allotments.

Exports during January totaled 16,499,612 florins of which 85 percent was shipped from Dutch-held ports in Java, although many of the products originated chiefly in other parts of the archipelago. Rubber shipments accounted for 34 percent of January exports from reoccupied areas, followed by tin and copra which accounted for 25 percent and 10 percent, respectively.

Exports were destined principally to the Netherlands (46 percent by value), the United States (27 percent), United Kingdom (8 percent) and the Union of South Africa and Singapore (each 7 percent).

Crops

With the harvesting of rice and other crops the food situation throughout the reoccupied area improved in May. The long-term rice position is not considered favourable, however, because of the general shortage still prevailing in south-eastern Asia and the fact that supplies from the interior of Java are not made available in sufficient quantities to other parts of the archipelago. Rice supplies are reported adequate in Republican territory, where the harvest is in progress, but transport and milling difficulties are stated to have delayed distribution.

The Republican Ministry of Economic Affairs estimated in May that food production in Sumatra in 1947 would include 1,140,000 metric tons of rice, 140,000 tons of maize, 790,000 tons of sweet potatoes, 70,000 tons of ground nuts, and 3,000,000 tons of fish. The Ministry stated that Sumatra would have a surplus of about 520,000 tons of foodstuffs available for export in 1947.

Plantation Output

The output of plantation products in Dutch-held areas will be on the low side in 1947, according to a statement issued by the Netherlands Indies Department of Economic Affairs. Thirty rubber estates in reoccupied territory of Java are expected to yield about 4,500 tons of rubber, and, in addition, 4,500 tons are expected to be produced on 21 estates in Borneo and East Indonesia. Production on 33 tea estates in Dutch-occupied territory in Java is not expected to exceed 700 tons in 1947. It is stated that one tobacco estate in the Medan area is in production, but will yield scarcely more than 5 tons of wrapper leaf during 1947. Most of the archipelago's plantation enterprises are in Republican territory and their present yield is unknown, but it is generally reported to represent only a small fraction of prewar capacity. It has been claimed, however, that at the turn of the year exportable stocks of produce (both estate and native grown) still available in Republican territory (Java and Sumatra) include some 95,000 tons of rubber, 60,000 tons of coffee, 30,000 tons of pepper, 6,000 tons of tobacco, and 200,000 tons of sugar.

Industries

Such industrial rehabilitation as can be undertaken continues to be hampered by shortage of foreign exchange, difficulty of obtaining prompt deliveries of replacement machinery and spare parts, and scarcity of trained personnel. Both the Netherlands Indies and Republican regimes are making short-term credits available to industrial enterprises; 4,351,900 florins

have been extended during the first quarter of 1947 by the Netherlands Indies Department of Public Works, and 33,000,000 rupiah by the Indonesian Peoples Bank. At Buitenzorg, in the Batavia bridgehead, a tire factory resumed operations on April 24, using rubber grown on plantations in the Batavia-Bandung areas. About 300 persons are employed in the factory, and output in May is expected to include 2,500 automobile tires and tubes, 15,000 bicycle tires, and 500 retreaded automobile tires.

PHILIPPINE COTTON & TEXTILE TRADE

Production of seed cotton in the Republic of the Philippines has decreased to less than 200,000 kilograms (1 kilogram=2.2046 pounds) from the prewar level of about 500,000 kilograms. Cotton is grown in the Republic in small quantities in widely scattered areas and is used for home spinning. Production is not expected to increase significantly within the next few years as there is no organized program for increasing output; the climate is unfavourable for high yields, except in restricted areas, and little research has been carried on for improvement of present varieties.

The only mill in operation has 20,000 active spindles but expects to have 10,000 more operating by October 1947.

Cotton consumption during 1947 is estimated at from 8,000 to 10,000 bales. Imports are to come from the United States with the exception of 10,000 bales purchased from Brazil.

Sufficient looms are in working condition to weave all yarn produced. Some yarn is sold to small home weavers, who account for a sizable percentage of cloth production. Yarn is also imported for home weaving.

Current supplies of textiles are reported adequate for present requirements, but prices are high. Over-stocks of cotton cloth and ready-made clothing are reported on hand. There has been increased use in some items of ready-made garments, particularly men's wear, obtained from army surplus.

Imports of raw cotton and textiles of all classes in 1946 were valued at 132,000,000 pesos as compared with 52,000,000 pesos in 1940, the difference attributed to increased prices rather than greater quantity.

Imports of standard types of cloth in 1946 as compared with 1940 (shown in parentheses) follow: Cotton piece goods, 83,000,000 square yards (116,000,000 square yards); linen, 63,000 square yards (1,200,000 square yards); woolen, 262,000 square yards (897,000 square yards); silk, 28,000 square yards (92,000 square yards). In addition to commercial imports, the Republic received an assignment of textiles from Japan. Commercial imports came mainly from the United

States, although a small amount of cloth was imported from Mexico. Imports of linen were from the United Kingdom and Belgium, and silk from the United States, except 4,000 square yards from China.

PHILIPPINES DAIRY PRODUCTS TRADE

Dairy products are imported into the Philippines. Even before World War II milk production was low and there was no organized dairy industry. At the present time, some effort is being made to establish dairies near the large centers of population by the importation of European dairy breeds, but the number of dairy cows imported up to June 1947 was small. Some fresh milk is obtained from native cows and carabao, but it is generally for family consumption.

Before World War II some progress had been made by the importation of Red Scindi cattle from India mainly for crossing with the native breeds. The Red Scindi thrives under Philippine climatic and pastoral conditions and may serve as the foundation for building up dual-purpose herds.

Before the recent war, the United States was the chief supplier of evaporated and condensed milk, followed closely by the Netherlands. Imports of all kinds of milk in 1940 amounted to about 23,000 metric tons, valued at approximately 8,000,000 pesos. In 1946, imports amounted to 33,501 metric tons valued at more than 21,000,000 pesos, most of which came from the United States.

In 1940 the Philippines imported 630 metric tons of fresh and canned butter valued at 636,260 pesos. In 1946 imports amounted to only 13 tons valued at 45,000 pesos. Australia was the leading supplier of fresh butter in prewar years.

Cheese imports in 1940 amounted to 373 tons, compared with 47 tons in 1946.

The Filipinos prefer evaporated and condensed milk to powdered milk because such preparations are ready to use and keep well without refrigeration. Imports of evaporated milk in 1946 totaled 27,056 metric tons; condensed milk, 4,546 tons; and powdered milk, 1,316 tons.

After liberation, there was a strong demand for milk, and as supplies became available merchants and official agencies ordered all milk that was offered them. By the first quarter of 1947, the supply of powdered and evaporated milk was greater than the market could absorb, and retail prices declined sharply.

It is planned to re-export some of the powdered milk to neighboring countries. Butter and cheese are still in fairly short supply.

SINGAPORE SOCIAL WELFARE CONFERENCE FOR SOUTH EAST ASIA

Initiated at one of the monthly meetings of Liaison Officers from territories of South East Asia, an International Social Welfare Conference will be held in the Cathay Buildings, Singapore, from the 18th to the 23rd of August. It will be attended by delegates from the Governments of S.E.A. territories, and by observers from other Governments which have had special experience in Social Welfare.

Invitations have been sent to the governments concerned and already many acceptances have been received. Meanwhile, in the office of the Special Commissioner in S.E.A., Lord Killearn, work goes ahead in preparation for the Conference, from which as time goes on, and resolutions take effect, widespread benefits may grow.

The term Social Welfare covers a very wide field and its boundaries are essentially liable to expansion. A conference on Social Welfare, however, must keep within certain limits; and the matters for discussion must be controlled to obtain the maximum benefit on a set number of subjects. The aims and objects of this Conference have been drawn up as follows:

(a) To exchange information regarding the conditions of life and the outlook of populations of S.E.A. with a view to the development of Social Welfare work in the future.

(b) To increase consciousness of Social Welfare as a proper function of a progressive government.

(c) To examine the best methods of starting and developing Social Welfare Departments in S.E.A. territories

(d) To define the work of a Social Welfare Department and to consider the best methods of co-operation between Government, Municipal, voluntary and other organisations concerned with the well-being of populations.

Such matters as health and education, which are Social services, and Pensions and Insurance, which come beneath the heading "Social Security", will only be discussed as far as their relationship to Social Welfare is concerned.

The term Social Welfare, in the main, covers such matters as Government Food Services, care of orphans, the destitute and the physically and mentally handicapped; recreational and Cultural Organisations for the young; Community Centres; and Social Research. It remains, however, to establish a definition of the scope and possibilities of a Department of Social Welfare—to lay within brackets the potentialities of its work—so that some form of pattern may be designed for de-

partments in South East Asia. It is true that any such pattern should be considered desirable by the conference, must necessarily be elastic, so that it can be modified according to the character of the region to which it may apply. Nevertheless its existence could well facilitate international dealings between Social Welfare departments. Where countries have already a firm policy regarding the departmental handling of Social Welfare problems it will, at least, be useful for them to know of the arrangements that exist under governments.

Social Welfare is a subject which has come greatly to the fore in recent years. In South Africa and in China, for example, its importance is considered sufficient to justify the formation of a Ministry of Welfare. In America, President Truman expressed a wish to place Social Welfare on a Ministerial level. In South East Asia on the other hand, there are territories which contain no Department of Social Welfare and other territories where such Departments have only recently been established. All races have forms of Social Welfare about which little is known. In every country Social Welfare must be developed with full consideration to the outlook and predilections of the people towards whose benefit it is aimed. Much will be learned at this Conference which if applied, will help to raise the general level of Social Welfare throughout all territories of South East Asia.

The Hongkong delegation to this Conference includes 3 men and 3 women.

SARAWAK DEVELOPMENT PLANS

Addressing the Council Negri (State Council) at Kuching on May 22, the Governor of Sarawak, Sir Charles Arden Clarke, outlined a two-year plan and a ten-year plan for the Colony's development. The great potential wealth of Sarawak will be surveyed and recommendations made by mining, agricultural and fisheries experts. An aerial and topographical survey had already been begun of those areas where coal deposits were known to exist and where land suitable for rice cultivation could be found. Deep boring would be begun at the Miri oil fields as soon as the necessary equipment could be obtained.

In the constitutional sphere, the Governor said, there had been one important recent development. District and Divisional Advisory Councils were being or had been established on as representative a basis as possible to provide a recognised and ready means of consulting the people, and enabling them through their representatives to express their views on all matters affecting their welfare and progress.